captive insurance times
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Micro-captives

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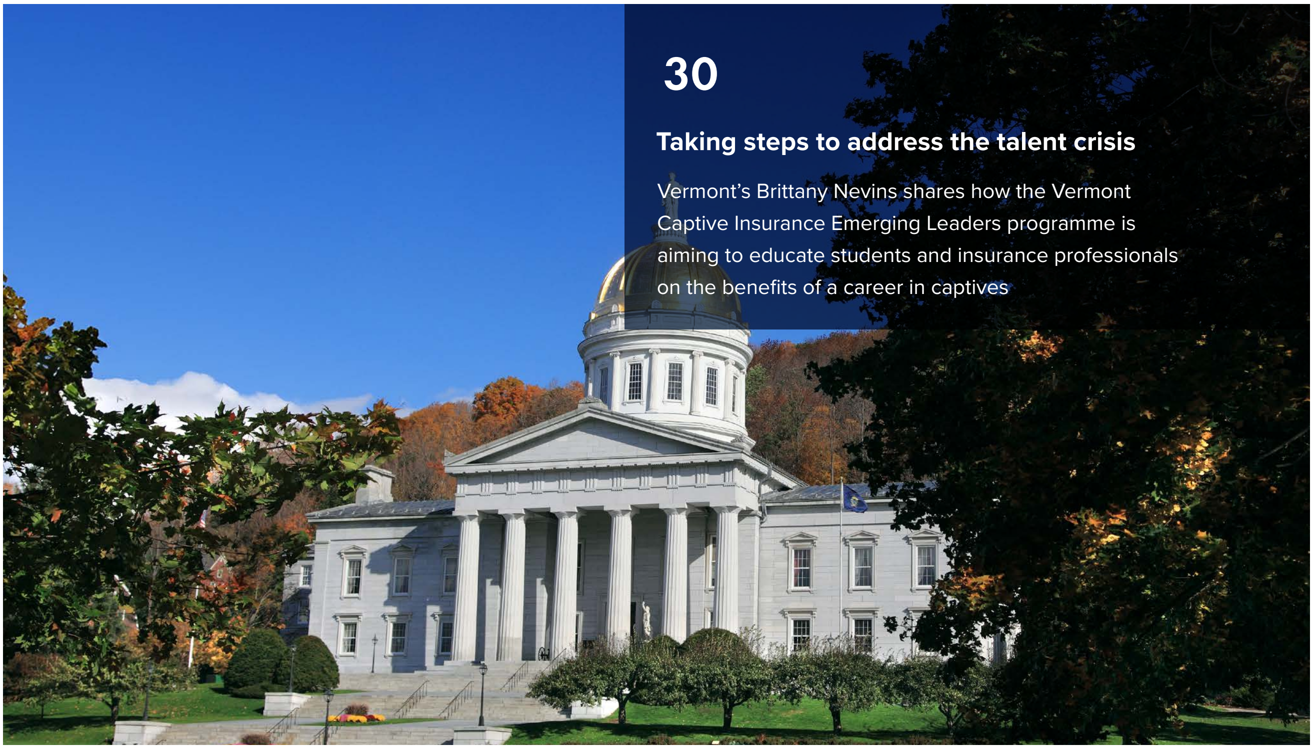

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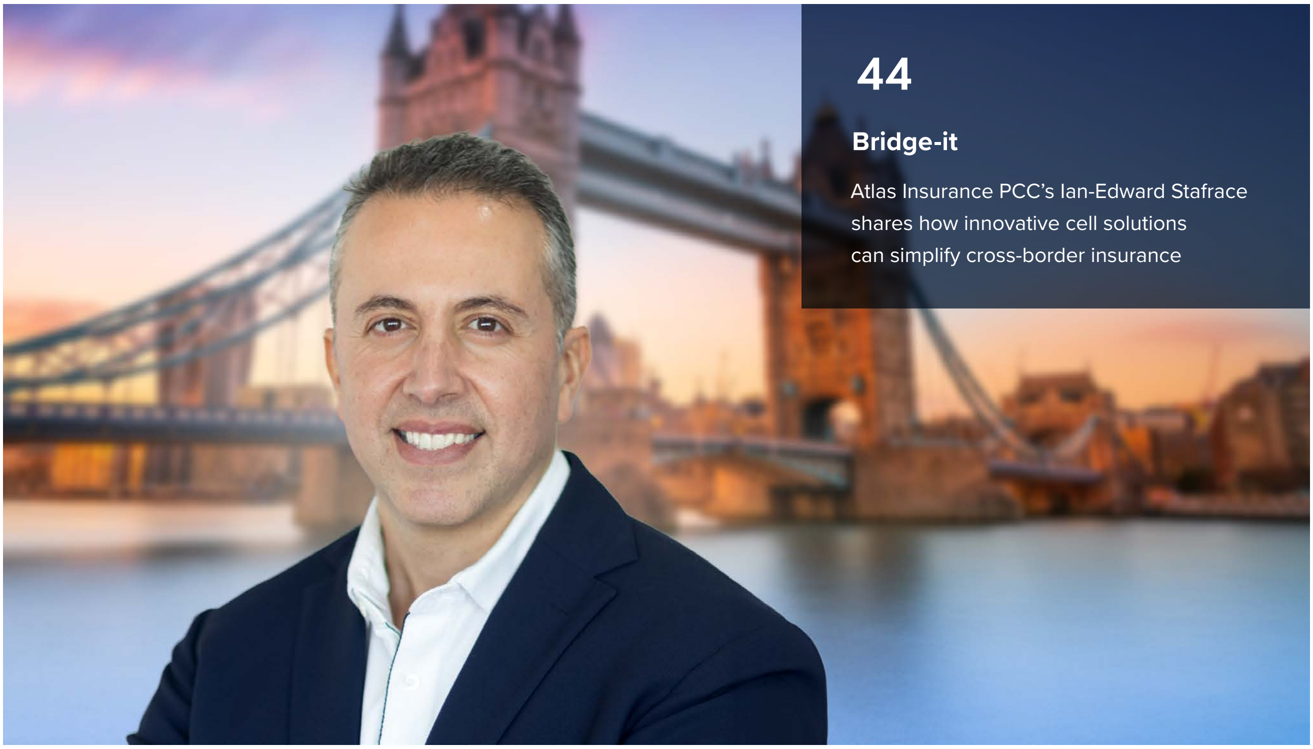


Marsh launches cyber-only group captive Edgware Re

Marsh has introduced Edgware Re, a group captive company designed to offer enhanced control and stability in cyber insurance programmes.

Based in Bermuda, Edgware Re engages with its members and allows participants to purchase up to US$10 million in insurance or reinsurance based on their needs.

Marsh will support the new company with captive management, incident response, vendor engagement and claims advocacy.

This initiative arrives in response to recent instabilities in cyber insurance pricing and coverage, aiming to pool cyber risks and premiums, absorb losses and enhance the exchange of cybersecurity practices among its members.

Participants in Edgware Re's programmes will also be eligible for dividends in the event of requisite profitability.

Tom Reagan, global cyber practice leader at Marsh Specialty, says: "As the scale, frequency and economic impact of cyber events continue to grow, organisations must regularly reconsider and optimise their cyber risk strategies.

"Edgware Re is an example of Marsh working with its clients to use their own capacity to create a sustainable insurance programme that better meets their needs in today's market."

Ellen Charnley, president of Marsh Captive Solutions, emphasises: "The captive insurance market is a proven risk financing alternative for organisations that want to take greater control of their risk and gain increased financial flexibility and protection.

"Edgware Re offers its participants the potential for more stable pricing and control, access to shared practices and potential profit sharing."

Previously, Marsh launched an AI-powered platform, ReadyCell, that enables organisations of all sizes to open their own insurance company and take control of their risk management. ■

Artex launches group captive for US transportation industry

Artex Risk Solutions introduces a new group captive designed to address risks for US transportation, trucking for hire, convenience store operators and petroleum marketers.

In the group captive, Artex serves as the captive consultant and manager and also offers claims advocacy.

Midwest Employers Casualty and Carolina Casualty are insurance providers, while Gallagher Bassett and Carolina Casualty handle claims administration and loss control.

Martin Hughes, executive vice president and specialty risk transfer for Artex in North America, states: "The US transportation industry has experienced pockets of reduced insurance and risk management options in recent years due to labour shortages, supply chain challenges and a distressed insurance market. The new group captive addresses a need for alternative risk solutions in the space."

Artex, a subsidiary of Gallagher, operates in more than 35 domiciles worldwide and offers solutions in (re)insurance and alternative capital marketplace.

Manulife signs US$4.3 billion reinsurance deal

Manulife Financial has struck a US$4.3 billion reinsurance deal with RGA Canada, a subsidiary of Reinsurance Group of America. The transaction, expected to conclude early in the second quarter of 2024, is the largest Canadian universal life reinsurance deal to date.

Under the agreement, RGA Canada will reinsure US$4.3 billion of reserves from Manulife's low return on equity (ROE)

Tennessee records US$2.41 billion in captive premiums

Tennessee's captive insurance sector reported US$2.41 billion in premiums in 2023, showing a 13.6 per cent increase compared to 2022.

The state licensed 25 new captives and 66 new cells last year, bringing the total to 164 captives and 555 cells, according to data from the Tennessee Department of Commerce and Insurance's (TDCI's) Captive Insurance Section.

In the same year, the risk-bearing entities in Tennessee rose by 37 per cent, totaling 719, while single-parent captives surged by 12 per cent, numbering 163.

Mark Wiedeman, TDCI Captive Section director, states: "The growth we saw in Tennessee in 2023 is a direct result of our team of analysts and our focus on customer service and connecting with prospective customers.

"Sustained year-over-year growth, good relationships and connectivity with our customers will continue to incentivise other companies to establish a captive in Tennessee for their risk-financing needs."

After the modernisation of Tennessee's captive statutes in 2011, the domicile has seen growth in the captive market.

Tennessee is the ninth largest captive domicile in the US, according to the Insurance Information Institution's 2022 rankings. It is also the thirteenth largest in the world, according to Allianz Global 2022.

Carter Lawrence, TDCI commissioner, says: "In Tennessee, our focus on responsible regulation, our modern captive insurance statute, and our roster of seasoned professionals continue to create a difference for captive domicile managers who might not find that combination when looking elsewhere.

"Taken together with our central location and our network of service providers, Tennessee continues to prove to the world why we are a first choice when establishing a captive insurance domicile." ■

Canadian universal life block at 16.2 times earnings multiple and approximately 1.0 times book value multiple.

The deal will allow the insurer to release US$588.6 million in capital, which it plans to return to shareholders through share buybacks. Priced at book value, the transaction is anticipated to reduce Manulife's annual core earnings by around US$36.7 million and net income attributed to shareholders by approximately US$29.4 million.

Manulife will continue to administer all policies while reinsuring a 100 per cent quota share on the reserves ceded, backed by structural protections including posted collateral.

Roy Gori, Manulife president and CEO, says: "This transaction is the largest universal life reinsurance transaction in the Canadian insurance industry and represents another milestone in our journey to transform our portfolio to higher ROE and lower risk businesses.

"With this transaction, we will have released US$8.1 billion of capital since 2018 and improved core ROE by approximately five per cent since 2017."

Missouri faces 'surge' in written premiums

The Missouri captive insurance industry witnessed a "surge" in its gross written premium, increasing 142 per cent year-on-year (YoY) in 2023 to US$8,600,492,937.

According to the Missouri Department of Insurance, the growth was a result of the "robust quality and resilience of Missouri-based companies" and was bolstered further by the support provided by the Missouri Department of Commerce and Insurance's captive insurance programme.

The Department names the surge in growth within a 12-month period as “an unequivocal testament to our unwavering dedication towards fostering captive growth”.

Commenting on the news, Sam Komo, Missouri captive programme manager, says: “The Missouri captive programme continues to be propelled by the triumphs of our captives, not by the sheer count within our portfolio.

“This ethos is palpable annually, as our community consistently outperforms industry benchmarks. Even amid intricate challenges, we address them head-on through collaborative efforts with our partners. Our focus remains on fortifying captives’ resilience and triumph.”

Marsh launches new facility

Marsh has launched a new insurance facility to provide cover for digital asset custodians. The insurance broker says that the facility provides up to US$825 million in insurance capacity and will support organisations with digital assets held offline.

Marsh also claims that it will cover certain elements of risks for assets secured by multi-

Labuan IBFC
International Business and Financial Centre, Malaysia

Labuan IBFC launches China Desk

Labuan International Business and Financial Centre (Labuan IBFC) has established the Labuan IBFC China Desk to enhance cross-border trade and investment between Malaysia and China.

The platform aims to improve facilitation, communications and support to strengthen the business relationship between Labuan IBFC and Chinese businesses.

The move will also foster the development of local Labuan talent, create new opportunities for industry advancement and facilitate strategic cooperation.

The company plans to implement a four-pronged strategy that focuses on targeted development, market trend analysis, Chinese cultural and linguistic expertise and stakeholder relationship cultivation.

Labuan IBFC’s initiative coincides with the fiftieth anniversary of Malaysia-China diplomatic relations and the eleventh year of the comprehensive strategic partnership between both countries. ■

party computation (MPC) or other custody solutions that do not operate entirely offline.

Jacqueline Quintal, global digital asset leader at Marsh Specialty, says: "Marsh's facility provides custodians with protection for the key operational risks they face in the management of digital assets; we look forward to supporting clients globally in aligning their risk financing and evolving commercial strategies, as they focus on building their operational resilience and market presence in this fast-growing sector."

The facility will protect against risks related to physical natural perils, third-party physical theft and internal collusion by employees responsible for secure storage.

The facility is backed by Lloyd's syndicates and London-based international insurers and was developed by Marsh Specialty's digital asset team.

PoloWorks and PwC partner to target captives

PoloWorks, a member of the Marco Capital Group, has launched a joint venture with PwC UK named PoloPartners.

The venture will provide captive solutions for corporate clients. Lloyd's will provide an "attractive venue" with its recently introduced captives initiative, the firms say.

PoloPartners will provide tech-enabled end-to-end insurance management services, including actuarial, claims management, risk and compliance, as well as finance.

Richard Lawson, CEO of Polo Commercial Insurance Services (PCIS), says: "PoloPartners epitomises our commitment to innovation and client-centric solutions, leveraging technology and industry expertise. The combination of PoloWorks' regulated platforms, and service resources with PwC's insurance practice, provides PoloPartners with a

customer proposition — adding value to the insurance market."

Alex Bertolotti, head of insurance at PwC UK, adds: "This partnership is an opportunity for us to create value for our clients in a new way and is fully aligned with our strategy to work with insurance businesses to help solve challenges, build trust, unlock value and transform."

Hylant partners with Pacific Risk Solutions

Hylant has partnered with Pacific Risk Solutions to expand its presence in Hawaii.

Based in the United States, Hylant is a privately held insurance brokerage firm. Anne Marie Towle, CEO of global risk and captive solutions at Hylant, believes the partnership will expand their client outreach.

She explains: "This partnership underscores our dedication to providing clients nationwide with captive consulting and management services."

Hawaii-based Pacific Risk Solutions offer captive management and consulting services in captive domiciles in the western United States and the Pacific Rim.

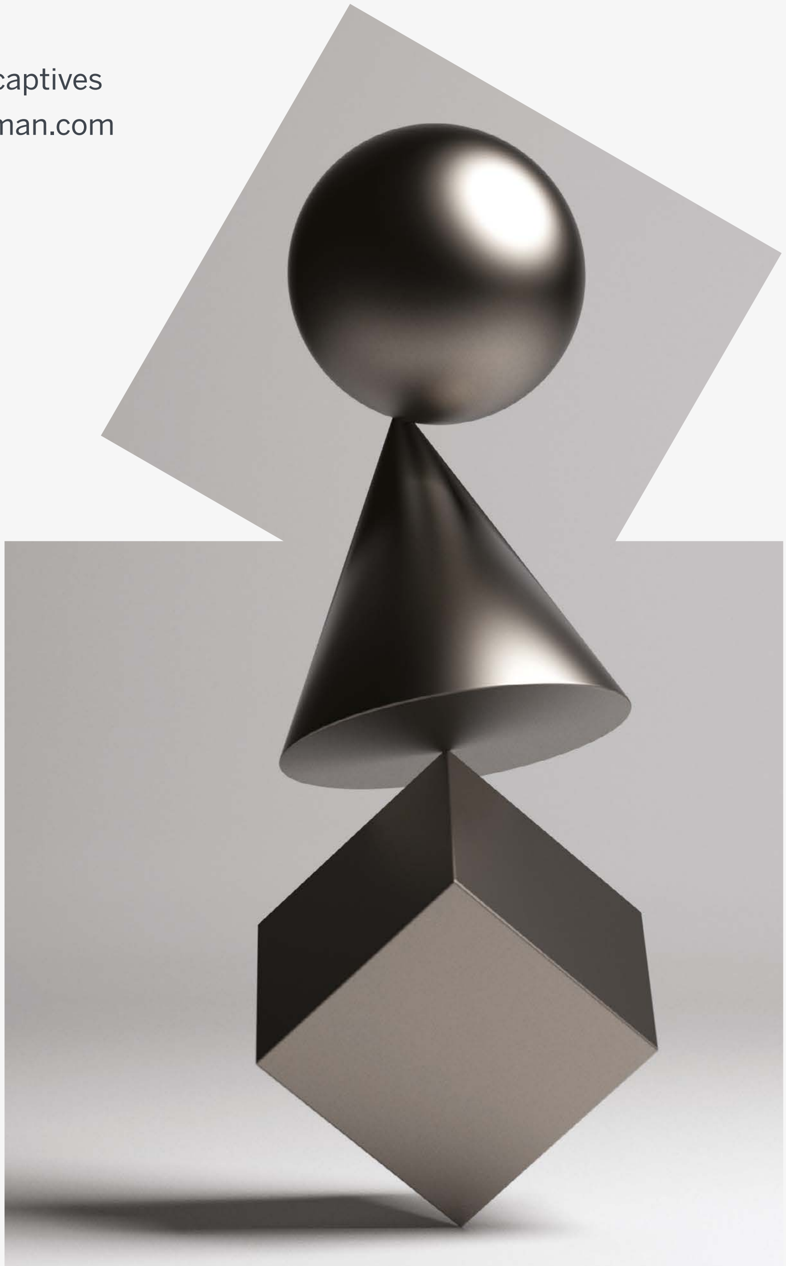
Myers and Woodward Straits receive honours

Robert "Skip" Myers and Woodward Straits Insurance Company have received the captive industry's highest honours. Myers, senior counsel for Morris, Manning and Martin LLP, won the CICA 2024 Distinguished Service Award.

Myers says: "It is a great honour! This puts me among those who have worked hard to improve the captive industry."

Meanwhile, Woodward Straits earned the CICA 2024 Outstanding Captive Award. Woodward Straits were credited for their flexibility and adaptability.

Fred Driscoll, responsible for Woodward Straits daily operations, says: "The captive increases our flexibility when there is a need for new or unique insurance and reinsurance across the enterprise. ■



Micro-captives

What owners can do to lower their risk profile

Scott Simmons, director of Verve Risk Services, and Michael Maglaras, president of Michael Maglaras & Company, shine a light on abuse in the captives industry through the use of 831(b) of the Internal Revenue Code and how firms can protect themselves

The most important thing to remember about the US insurance business, and secondly about the captive insurance business, in particular, is that it is generally not subject to any federal regulation.

Captives in particular are regulated by states and other jurisdictions that have adopted captive legislation.

These states and jurisdictions have identified themselves as adopting regulation, enabling the sound and appropriate establishment of captives within their borders under conditions that are generally acceptable throughout the industry.

Currently, the federal government is deeply and rightfully concerned about abuses in one part of the captive industry. In particular, abuses by captives utilising section 831(b) of the Internal Revenue Code. They have begun to intervene in micro-captive abuses through the Internal Revenue Service (IRS).

The abuses of the 831(b) concept and structure are well known to the industry — it is a travesty. This abuse violates the letter and spirit of the Tax Reform Act of 1986 signed into law by President Reagan. These abuses should be called out when they occur, as any attempt by the United States federal government to intervene at the federal government level in captive operations needs to be discouraged.

The captive industry is largely self-policing. The industry has self-managed and self-policed traditionally in a way which is admirable. The handful of individuals who have encouraged the abuse of 831(b), namely through the use of these micro-captives for purposes other than the bearing of insurance risk, have done the captive industry no favours.

With this article, we identify how captives, seeking for the first time or attempting to maintain 831(b) designation, can protect themselves from deeper scrutiny by taxing authorities.

What is the secret? The captive insurance company taking the 831(b) election must appear to be a legitimate insurance company. It must take risk; it should be insurance risk and should be risk that is distributed among entities that are associated with the captive's original parent organisation. Any captive should never be formed primarily for any purpose related to tax. If a captive produces a tax benefit on a legitimate basis, then it is a cause for celebration. If it is formed for the avoidance of tax, it is a cause for concern.

It is important to examine the ways in which those wishing to establish a micro-captive or to continue to utilise the 831(b) designation can stay below the radar screen of taxing authority scrutiny.

A valid insurance contract

A micro-captive should issue an insurance policy for each and every kind of insurance underwritten. Each policy should resemble a standard insurance contract providing coverage for the line or lines of insurance in question. It should have insuring agreements, a classic conditions section, and typical definitions associated with the kind of coverage in question, as well as clear and unequivocal exclusions to coverage.

Depending on the line of coverage, the policy form should contain appropriate endorsements. An absence of an insurance contract issued by the captive to its parent is an immediate fail when establishing legitimacy under Section 831(b). If the captive in question is underwriting a reinsurance programme, then there should be a valid facultative reinsurance agreement tied to an issuing carrier's policy form. The first thing that regulators and taxing authorities examine is whether there is a valid contract of insurance or reinsurance in force, insuring or reinsuring something, and doing so under terms and conditions that are recognisable in the commercial insurance industry.

A valid and appropriate premium

An insurance policy is a contract — there is no contract without consideration. The consideration in the case of a micro-captive is an appropriately calculated premium. The premium should be commensurate with the risk assumed by the captive. It should be based on an exposure and ultimate loss analysis provided by an independent actuary who has assessed parent prior claims history, evaluated the coverage that will be in force, and projected ultimate loss to which fixed and frictional cost components are added to arrive at a legitimate premium.

The premium must be set at a confidence level of ultimate loss that assures the possibility of at least, at a minimum, 10 per cent of the time the premium will be inadequate to cover the loss. A premium that is over-adequate with respect to potential loss, as that loss is evaluated by consulting actuary, is one of the first things that taxing authorities acknowledge when they evaluate an 831(b) programme. Simply put, show us a micro-captive where the premium charged is completely out of proportion to the commercial market equivalent, or represents more than 90 per cent of the actual limit of coverage afforded, and we will show you a micro-captive straight in the crosshairs of the IRS.

Independent and professional claims management

We recommend seeking the assistance of a professional third-party administrator able to investigate and manage claims on an arm's length basis, set reserves, make recommendations as to when to settle, as well as make certain that the entire claims transaction is managed in a fair and objective way that can be easily benchmarked against a commercial market-equivalent policy claims process.

"The captive industry is largely self-policing. The industry has selfmanaged and self-policed traditionally in a way which is admirable"

Solid, reputable and independent captive management

The most important service provider to any captive insurance company, whether a micro-captive or not, is the captive manager. That designation is not only statutory in every captive domicile, but the captive manager keeps all vital books and records as well as creates unaudited financial reports.

The captive manager is in charge of checking a captive's vital signs. It is the captive manager that, when that management firm has significant experience, can advise the insured about the proper construction of a captive, and particularly one with the 831(b) designation.

Micro-captive owners should rely on their captive managers for a broad range of experience in dealing with the kinds of questions that taxing authorities may ask a captive owner. It is imperative to choose a captive manager who is involved with captives, other than simply 831(b). Captive managers that specialise in 831(b) alone may not be able to offer the breadth and depth of advice as to how a firm's 831(b) captive benchmarks with similar captives in the industry and in domiciles beyond the domicile of the firm's micro-captive.

Domicile

Domicile is important. Several captive domiciles are managed effectively from the top down — meaning, a strong nationally recognised regulator imposing discipline, good business judgement and order on the captive organisation and management process. However, not all domiciles are alike. Captive owners, or those looking at an 831(b) structure, should avoid domiciles with loose regulatory scrutiny, particularly outside the United States, and where those domiciles are not among the top 10 or 15 recognised domiciles within the industry. Again, show me an 831(b) organised in a domicile not among the leading captive domiciles in the world, and we will show you a micro-captive about ready to come under the scrutiny of the IRS.

The audit

We think it is vitally important that an independent auditor be engaged to provide, at a minimum, a statutory audited financial acceptable to the domicile in question. The auditor is responsible for reviewing all operations within the captive, including financial management and other internal controls. This role is vital, as regulators, reinsurers and others depend upon audit revealations for the decisions they make with respect to supporting micro-captives.

Governance

What does the IRS look for when it decides to investigate a specific 831(b)? One of the easiest ways to detect when an 831(b) captive is moving beyond the boundaries of acceptable best business practices in the captive industry is to take a look at the composition of the board of directors.

What are the red flags? A board of directors composed largely of family members, including the children of the owner of the business, insured by the 831(b) is a so-called red flag. Children who may be largely absentee directors not otherwise participating in the actual management or governance process, is a key indicator. In every captive domicile a representative of the local domicile is usually an important requirement, such as a professional representing the captive management firm or local counsel, and it is essential that these "outside" directors exist.

Taxing authorities can easily penetrate through an 831(b) structure if there is an absence of minuted action. At a minimum, there should be an annual general meeting of the shareholders or members of the 831(b). Minuted action should be recorded and taken. Officers should be re-elected or replaced. The premium should be agreed upon after consultation with a consulting actuary. The renewal of service provider contracts should be discussed and approved. Investment performance and results should be discussed.

Most importantly, there should be minuted action which clearly states that claim activity in the captive has been discussed for the year in question and that there is a clear path of learning backward from the captive's claim experience to the parent about how claims suggest improvements in quality and performance at the parent level. Lastly, the independent captive manager should include as part of the board package a detailed stewardship report assessing the temperature of the captive's operations and its compliance with regulatory requirements and best practices standards.

Financial issues beyond premium

When the IRS examines the operations of an 831(b), it frequently looks for ways in which the financial operations of the micro-captive fall outside acceptable best practices within the captive industry. For example, they expect a premium to be paid on a regular basis and paid in its entirety on an annual basis at the point when it is fully earned. What is the easiest way to come under the scrutiny of the IRS? It is to end the policy or fiscal year with a premium receivable in the captive that the insured permits to spill over to the subsequent or following years.

Another important point that the taxing authorities will often examine is whether there is a succession or one or more loans between the captive and its parent organisation. Loans that are provided on a 24-hour demand note basis, but where the domicile in question has no direct knowledge of the creditworthiness of the parent. At the end of each year and on an after-tax basis, the best place for micro-captive retained earnings is for those earnings to fall into the contributed surplus of the 831(b), where they will help to strengthen the micro-captive's claims-paying ability and promote its longevity.

In summary

The 831(b) structure is one of the most important hallmarks of the captive industry.

It is time that all market participants in the industry take the necessary steps to help middle-market businesses understand how to utilise this important provision within the Internal Revenue Code — a law signed by President Reagan in 1986 to maximise their ability to manage their risk, recapture premium from the commercial market at an appropriate level and over an appropriate timeline, and gain control of the important connection between claims activity and improvements in the quality of the business being insured through a micro-captive.

Any captive formed at any time or in any way for “estate planning purposes” or for federal tax avoidance, or for any other reason unrelated to the maintenance of insurance risk, the control of claims and the improvement of quality within the parent company’s operations, should be avoided. There is no reason why the 831(b) structure should not prosper in an environment where increasingly more privately-held middle market insureds are searching for robust solutions in increasingly difficult financial times. The 831(b) micro-captive is but one tool in the toolbox available to middle-market and other insureds. It is up to all market participants to make sure that these insureds make the right choice, do the right thing, and above all else remember that captives are about the provision of insurance and reinsurance. There is no other purpose for the formation of a captive at all. ■

"Any captive formed at any time or in any way for “estate planning purposes” or for federal tax avoidance, or for any other reason unrelated to the maintenance of insurance risk, the control of claims and the improvement of quality within the parent company’s operations, should be avoided"

Scott Simmons
Director
Verve Risk Services

Michael Maglaras
President
Michael Maglaras & Company

Charting growth in The Bahamas

Dana Munnings-Gray, acting superintendent of insurance, summarises recent developments in The Bahamas' captive insurance industry

As the global insurance landscape dynamically shifts, The Bahamas is poised to re-establish itself as a prominent player in the captive insurance marketplace. Our jurisdiction has adopted strategic initiatives to cultivate an environment that fosters innovation and regulatory excellence.

We are strategically positioned for growth as our forward-thinking approach has enabled a complete revitalisation of the sector, including a legislative framework that aligns with future progressive market structures.

Dating back to the 1960s, the Bahamas has a longstanding history in the captive insurance industry. Bearing this legacy in mind, we will adapt to evolving market trends and capitalise on emerging opportunities. Our commitment to transparency and regulatory efficiency has positioned us favourably for a resurgence in the sector. The Insurance Commission of The Bahamas, as the supervisory authority for the Bahamian insurance industry, is actively enhancing the captive insurance sector. This enhancement involves streamlining the application process and maintaining a robust regulatory and supervisory framework which aligns with international standards.

Recognising the critical role the captive insurance market plays in contributing to the overall financial services sector, The Bahamas' Government, in collaboration with the commission, aims to implement measures to reinvigorate the industry. These initiatives are geared toward boosting our jurisdiction's competitiveness on the global stage. The commission has undertaken comprehensive benchmarking initiatives of successful captive insurance jurisdictions, gathering insights from global leaders to inform our strategy. By analysing best practices, emerging trends and regulatory innovations, we strive to incorporate elements that have proven effective in fostering a resilient captive insurance ecosystem.

Local insurance managers and other financial intermediaries are finding innovative ways to promote the captives market and other services offered in the jurisdiction. The Bahamas' Financial Services Board (BFSB) has been a vital partner in this journey, playing an integral role in promoting the country as a competitive international financial centre. It actively highlights the synergy between financial services and the captive insurance industry.

Over the past 10 years, the number of licensed captive insurers in The Bahamas has grown. In particular, the region has seen an increase in the number of parent companies domiciled there and net premium volume.

"In 2021, the commission initiated a review of The Bahamas' primary insurance legislation, including the Insurance Act of 2005 and the External Insurance Act of 2009"

This growth has been driven by small-to-medium-sized entities (SMEs) seeking a new destination for setting up their segregated accounts. The Bahamas has proven a cost-effective option, especially for SMEs outsourcing administrative and operational oversight to locally registered insurance managers, financial and corporate service providers and other financial services professionals.

In 2021, the commission initiated a review of The Bahamas' primary insurance legislation, including the Insurance Act of 2005 and the External Insurance Act of 2009.

The legislation is set to undergo amendments aimed at streamlining regulatory and supervisory requirements and enhancing its framework. The proposed changes include the introduction of new licensee categories, regarding the type of business the entity will conduct as well as its structure, rather than its domicile or the constituents it serves.

There is a need to transcend traditional insurance models as the current legislation lacks the flexibility required for this evolution. However, the proposed overhaul will have the capability to accommodate future market structures. The amalgamation will enable our regulatory framework to adapt to the evolving needs of the captive insurance landscape more effectively.

The revised legislation will prioritise flexibility, enabling greater innovation and adaptation to emerging business trends. The evolving landscape of the captive insurance market emphasises technology, data analytics and risk management.

Therefore, the legislative framework must evolve accordingly. Innovation will be encouraged and our risk management standards must not diminish.

The Bahamas has a very robust domestic insurance market. Under the updated legislation, external insurers, much like their domestic counterparts, will be similarly supervised based on their risk profile.

Risk-based supervision factors in the size, nature, and complexity of the super institution. This approach determines which regulatory measures are required and implemented, regardless of where the policyholders reside.

Given current hard market conditions, institutions with a firm understanding of their risk and loss history may seek alternative means of financing the cost of insurance coverage.

Such conditions are often a catalyst for captive formation, which is proven to be an effective alternative risk transfer mechanism, especially when considering cost constraints.

The Bahamas is a competitive, cost-effective jurisdiction, brimming with local and international expertise.

The robust nature of our regulatory framework ensures that the Commission is poised to supervise any style of international insurance business within our borders.

The jurisdiction boasts professional and highly skilled service providers, which encompasses accountants, attorneys, and risk and compliance professionals.

Risk mitigation strategies are a hallmark of our industry, and our risk-based supervisory framework is proactive. The framework requires a frequent review of the evolving nature of risks in the global market to ensure agility and responsiveness to emerging challenges.

The jurisdiction is committed to fostering a collaborative ecosystem that values the input of domestic and international industry stakeholders, as we consider their perspectives instrumental in shaping the future and success of our industry.

Ongoing consultation with industry experts will further ensure that our proposed legislative framework aligns with the evolving needs of the market.

We have sought inspiration from successful jurisdictions while acknowledging the uniqueness of our market.

Balancing adherence to international standards with the specific needs of our jurisdiction is crucial to creating a regulatory environment that attracts international business and supports local economic interests.

Key factors such as reasonable regulatory costs, highly skilled and varied professionals, and the framework we employ in our approach to supervisory oversight will continue to attract both domestic and international insurance businesses.

The Bahamas is continuing to emerge as an important hub for captive insurance. Our vision for sustained growth, regulatory excellence, and collaboration with industry stakeholders is unparalleled.

We intend to do more than simply modernise our captive insurance legislation but to also become a pioneer in the concept of sustainable development in non-conventional paradigms. ■

"The Bahamas is a competitive, cost-effective jurisdiction, brimming with local and international expertise"

Dana Munnings-Gray
Acting superintendent of insurance
Insurance Commission of The Bahamas

Ed Goard
Chief investment officer
Yousif Capital Management

A dynamic approach to captive investing

With interest rates in flux, captive insurers must take a nimble investment strategy to preserve capital and seize opportunities. Ed Goard of Yousif Capital Management discusses how dynamic asset allocation, disciplined rebalancing and prudent risk management can help captives thrive across economic cycles

Why is dynamic asset allocation important for captive insurers, particularly in a rising interest rate environment?

Dynamic asset allocation is an investment strategy that adjusts the mix of asset classes based on prevailing market conditions.

This differs from a static asset allocation which is unresponsive and may miss the opportunities that a shifting market cycle may present.

For example, rising rates often lead to depreciating bond values, necessitating shifts in investment strategies to preserve capital and optimise returns.

A dynamic approach allows insurers to adjust their portfolios in real-time, reducing exposure to assets negatively impacted by interest hikes, such as long-duration bonds and increasing allocations to more favourable options.

This also includes short-duration securities or equities less sensitive to rate changes.

Conversely, during falling rate environments, this strategy facilitates shifts towards longer-duration bonds to capture higher yields and enhancing exposure to growth-oriented equities that benefit from lower borrowing costs, ensuring a balanced and responsive asset allocation through varying interest rate cycles.

Given our analysis, we believe the current rate hiking cycle has run its course, indicating a strategic pivot may soon be in order.

This strategy not only mitigates risk but also capitalises on opportunities arising from economic fluctuations.

By proactively managing the asset mix through business and interest rate cycles, captive insurers can better navigate the complexities of a changing economic landscape, to ensure financial stability and the capacity to fulfil their obligations.

What strategies can captive insurers use to adjust their equity-bond mix when interest rates rise? How can they determine the right mix?

When interest rates rise, captive insurers can adjust their equity-bond mix by reducing allocation to long-duration bonds, which are more sensitive to rate hikes. Additionally, they may increase investment in short-duration bonds or floating rate instruments less impacted by rising rates. They might also shift towards sectors resilient in a higher rate environment, such as financials or commodities. In a falling rate scenario, in contrast, reallocating towards longer-duration bonds to capture higher yields and growth-oriented equities can be advantageous. Based on our assessment, the present cycle of interest rate increases is at or near its conclusion, suggesting that a recalibration of strategy could be imminent.

"By proactively managing the asset mix through business and interest rate cycles, captive insurers can better navigate the complexities of a changing economic landscape"

Determining the right mix involves a careful analysis of the insurer's liability stream, risk tolerance, investment objectives and the economic outlook. This includes evaluating the potential impact of interest rate changes on different asset classes and adjusting the portfolio to balance risk and return optimally. Regular portfolio reviews and stress testing can also help captive insurers remain aligned with their strategic goals in the face of fluctuating interest rates.

How frequently should captive insurers consider rebalancing their portfolios? What factors should drive rebalancing decisions?

Captive insurers should consider rebalancing their portfolios at least annually or semi-annually, though more frequent reviews may be warranted in volatile or rapidly changing markets. The decision to rebalance should be driven by significant deviations from the target asset allocation that exceed predetermined thresholds, typically between five and 10 per cent. These deviations can occur due to market movements that disproportionately affect the value of different asset classes within the portfolio.

Factors driving rebalancing decisions can include changes in the economic outlook, interest rate shifts and modifications in the insurer's liability stream, risk tolerance or investment objectives.

Additionally, regulatory requirements, liquidity needs and operational considerations, such as the availability of capital or the need to fund claims, should also inform the timing and extent of rebalancing actions. By systematically reviewing and adjusting their portfolios, captive insurers can ensure alignment with their strategic goals and risk management parameters, optimising performance over time.

How can maintaining adequate cash reserves help captive insurers adapt their asset allocation more nimbly? What is a prudent level of cash to hold?

Maintaining adequate cash reserves enables captive insurers to adapt their asset allocation more nimbly by providing liquidity to quickly seize investment opportunities, or rebalance the portfolio without the need to sell other assets at an inopportune time.

Cash reserves act as a financial buffer against market volatility and unexpected claims, allowing insurers to manage risks more effectively.

The prudent level of cash to hold varies depending on the insurer's operational needs, investment strategy, and the overall market conditions.

Typically, a range of five to 10 per cent of the total portfolio is considered a balanced approach, offering flexibility while minimising the drag on overall portfolio performance that can result from holding too much in low-yielding cash. This level should be regularly reviewed and adjusted based on the insurer's liquidity requirements, anticipated cash flows and changes in the economic environment to ensure that the portfolio remains aligned with the insurer's strategic objectives and risk tolerance.

How should captive insurers think about allocating to credit in a rising rate environment? When does credit become more attractive?

In a rising rate environment, captive insurers must exercise discernment when allocating to credit, including corporate bonds and asset-backed securities (ABS).

As rates climb, the immediate impact can depress the prices of existing fixed-income securities. However, this environment also presents opportunities for insurers to capture higher yields, particularly as new issuances come to market with more attractive rates.

Our insights suggest that the ongoing cycle of rate hikes is likely at its peak, signalling the potential need for a strategic adjustment in the near future. When considering allocations to credit, insurers should prioritise credit quality and duration.

High-quality, short to intermediate-duration bonds can offer a more favourable risk-return profile, mitigating interest rate risk while providing income. Diversification across sectors and credit qualities is also crucial to managing potential default risks.

Credit becomes more attractive as the spread between corporate bonds and risk-free rates — such as treasury yields — widens, indicating higher compensation for taking on credit risk.

Insurers and their investment managers should closely monitor these spreads, along with economic indicators and corporate health metrics, to identify opportune moments for increasing their credit exposure.

It is essential to balance the pursuit of higher yields against the portfolio's overall risk tolerance and liquidity needs, ensuring that the insurer stays prepared to meet its obligations and capitalise on the evolving investment landscape.

For equity investments, how can a focus on dividend-paying stocks help mitigate volatility? What dividend yield strategies make sense in this environment?

This is a prudent strategy for captive insurers aiming to mitigate volatility in their equity investments. Often established and financially stable, dividend-paying companies can provide a steady income stream, contributing to the portfolio's overall returns even in fluctuating markets. This income can help cushion the impact of price volatility and support the insurer's liquidity needs.

In the current environment, a strategy emphasising stocks with a history of consistent and rising dividends makes sense. Such companies are likely to have resilient business models and strong cash flows: particularly valuable attributes in uncertain economic times. However, it's critical to balance yield with quality; chasing high dividend yields without considering the sustainability of those dividends or the underlying company's financial health can introduce undue risk. A focus on dividend yield, combined with dividend growth, can offer a balanced approach, providing income, potential for appreciation and a hedge against inflation. This aligns well with the long-term objectives of captive insurers.

What are some timing considerations around when to make asset allocation changes? How can captive insurers avoid buying or selling at the wrong time?

These considerations hinge on disciplined analysis rather than market timing, which is notoriously challenging. Captive insurers should base decisions on comprehensive market research, economic indicators and alignment with their strategic investment objectives and risk appetite. Key considerations include interest rate trajectories, inflation expectations and regulatory or sector-specific developments that could impact portfolio performance.

To avoid the pitfalls of buying or selling at inopportune times, insurers should employ a systematic approach to rebalancing, adhering to predetermined thresholds that trigger portfolio adjustments. This method reduces the temptation to react impulsively to market volatility and ensures actions are aligned with long-term strategies. Additionally, incorporating a dollar-cost averaging strategy for entering or exiting positions can further mitigate timing risk. By making incremental adjustments over time rather than all at once, captive insurers can smooth out the effects of market fluctuations, enhancing the likelihood of achieving favourable outcomes over the long-term.

What risk management strategies should accompany asset reallocation decisions? How can captive insurers manage portfolio risk effectively?

Accompanying asset reallocation decisions, risk management strategies are paramount for captive insurers to manage portfolio risk effectively. Diversification remains the cornerstone of risk management — spreading investments across various asset classes, sectors and geographies to mitigate systemic and specific risks. Additionally, employing duration management in fixed-income investments helps manage interest rate risk, especially pertinent in volatile rate environments.

Stress testing and scenario analysis also play critical roles, enabling insurers to evaluate portfolio resilience under various economic conditions and adjust their strategies proactively.

Effective risk management further involves continuous monitoring of the risk-return profile to ensure alignment with the insurer's risk appetite and investment objectives. By adhering to these strategies within a disciplined investment framework, captive insurers can navigate market uncertainties, maintaining portfolio stability and ensuring long-term financial health. ■

Taking steps to address the talent crisis

Vermont's Brittany Nevins shares how the Vermont Captive Insurance Emerging Leaders programme is aiming to educate students and insurance professionals on the benefits of a career in captives

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Can you provide an overview of the Vermont Captive Insurance Emerging Leaders (VCIEL) programme and its key goals?

It is no secret in the captive industry that most professionals stumble into it. Few intentionally seek out the career path, though once they find it they tend to stay and find the work meaningful and challenging.

Given the continuing hard market, there is considerable growth in the captive industry every year, but not enough people are entering the workforce to meet the demand.

Groups such as the Captive Insurance Companies Association (CICA), NextGen and Amplify Women are great industry-wide initiatives that have built the foundation for more localised efforts. Here in Vermont, we needed to do more to introduce young talent to captives, so we have taken local action to preserve and build on our essential captive infrastructure for the industry to be supported for decades to come.

The VCIEL is made up of about 30 local captive insurance professionals that meet on a regular basis. We raise awareness about the many career paths in the industry and support rising professionals to nurture their leadership skills.

We are working to accomplish these objectives in a number of ways — for instance, creating a ‘resource library’ of captive educational materials for students and existing professionals, as well as organising networking events.

The emerging talent group was formed in March 2023 as an affiliate of the Vermont Captive Insurance Association (VCIA), with the support of the Vermont Department of Economic Development.

The group was established to address the serious workforce deficiency which, in 2022, was identified as one of the three main obstacles facing the entire industry.

How has the programme developed and grown since its launch in April 2023?

Since starting last year, we have hit the ground running. I am proud to say we have engaged VCIEL members who have a vested interest in the next generation of captive professionals. They have formed various committees focusing on networking

"I am proud to say we have engaged VCIEL members who have a vested interest in the next generation of captive professionals"

events, captive career educational resources and developing relationships with local colleges, ensuring that captive insurance has a permanent presence on campuses across the state.

VCIEL has also worked closely with the VCIA conference task force committee, ensuring that there are panels for new and emerging captive insurance professionals and representation among speakers at the annual conference — the largest gathering of captive insurance professionals in the US. Additionally, VCIEL partnered with the VCIA to create a student sponsorship programme, where students can attend the conference for free and shadow members of the emerging leaders group. There is an educational career page on the Vermont captive insurance website with resources. The VCIA has also created a web page with more information about the initiative and student sponsorship.

What initiatives or events has the emerging leaders group organised so far to educate students and professionals about career opportunities in the captive insurance industry?

The VCIEL has hosted two formal networking events in the region, with the latter focusing exclusively on education for students. Many students and higher education faculty came to a local brewery and pizza restaurant in Burlington. They engaged in a speed dating-type structure, going from table to table learning about the different roles in the captive industry.

We also created an online resource that breaks down the different roles in the industry and lists companies in the region for each role. This provides students with names to contact directly to search for opportunities.

Every other month, the group meets at different places in the region for an informal networking gathering to form connections with other captive insurance professionals in the area. In March, the VCIEL hosted a How to Network event with the University of Vermont Entrepreneurship Club. In addition to this, the VCIA also hosted a luncheon with the VCIEL for students and faculty in the region to network, before the VCIA Vermont Roadshow educational event on 27 March. Admission was free for students and local professors were working to provide credit and transportation for students in their classes who attend.

How has the programme collaborated with educational institutions in Vermont over the last 10 months to build awareness of captive insurance careers?

The initiative has an education committee that is tasked with working on building relationships and opportunities with the educational institutions in the region. We have drawn upon the group's connections to universities and colleges in the region, as many went to school in Vermont and have subsequently built an extensive list of contacts. We have had multiple panels in front of students, with more scheduled this spring. It is clear that when local educational institutions are exposed to captive insurance and the incredible opportunities students have here in Vermont, they do everything they can to help us.

After all, according to an economic contribution study we conducted in 2019, the captive insurance industry pays on average, approximately US$92,000 a year, and it is likely that number has increased.

As far as I am aware, there is no industry in Vermont that provides such good, high-paying jobs for its residents — at least not where they can stay and enjoy our nature and simple way of living, while also having access to C-suite executives around the world and helping companies and organisations solve real-world insurance challenges.

Can you share any initial impact or successes the programme has seen in its first year of operation in terms of attracting new talent to the industry?

It is hard to quantify the success, but it feels like we are finally making inroads with local educational institutions and people are constantly reaching out to learn more.

On the new careers page I have been contacted by 33 different people, both students and existing professionals, looking to begin a career in captive insurance. I work to set up meetings with them to explain the nuances of the industry and the best ways to find jobs.

This is necessary as there is no highly utilised, central job board for the captive industry; and knowing where to look is not intuitive. I make connections where I can and this appears to be actively leading to filling positions. It has been incredible to see students start at captive insurance internships who now let me know that they are working within the industry.

I have seen evidence that students who attend the VCIA Conference are blown away by the magnitude of this industry and how innovative it is. When I asked about how things were going, they would usually respond with something like, ‘What is next? How do I work in this industry?’

What are some of the unique challenges the captive industry faces in recruiting and retaining emerging talent?

Insurance is not something that is widely acknowledged and understood as a great career path. We need to break down the stigma associated with working in the insurance sector and make the benefits clear to the broader public.

The benefits are even less known when talking about captive insurance. The more we can all do to highlight our experiences working in this industry, and the value it can bring to organisations, the more we will see new talent entering into it. We all have a role to play in engaging and developing the next generation of captive leaders.

That involves sending emerging professionals to conferences, giving them the opportunity to expand their education and actively engaging in succession planning. Having the intentional support for growth internally is key.

"A key part of what the VCIEL does is to make the captive insurance industry more accessible and understandable"

What are the next steps and plans for VCIEL as it enters its second year to tackle the talent gap? How can students, early career professionals or others get involved with VCIEL going forward?

The VCIEL plans to host two larger networking events each year in Vermont and informal networking events every other month. We will also have a strong presence at the 2024 VCIA Conference and are currently strategising how to make an impact there. Committees will continue to meet to plan specific initiatives to reach our goals, including giving more in-class presentations on captive insurance. In addition to this, the group is also considering attending career fairs and engaging in more targeted efforts at high schools.

Any student or new and emerging professional in Vermont can get involved as a member of the group by reaching out to myself or the VCIA; you can also sign up for email updates on the VCIEL page of the VCIA website. Everyone in the industry can show support, however, by using their networks to raise awareness about captive insurance as a career path in their region and focus area. Reach out to your alma mater and see if you can organise a panel with the VCIEL to talk about captive insurance, or highlight an exciting story of captive formation or innovation in the industry in any way you can. These seemingly small efforts can make a big difference if we all contribute in our own way.

In what ways does VCIEL aim to foster diversity and inclusion within the captive workforce in Vermont?

The captive industry has been very homogenous throughout history, something that has certainly been changing significantly over time, but still has a long way to go. Part of the intention behind encouraging more diverse speakers on panels is not only to give these emerging leaders opportunities that might be harder for them to obtain on their own, but to also change the narrative around what it means to be an 'expert' in the industry. Certainly, we have our industry veterans, and their knowledge is very important, but we can undervalue the level of knowledge and new ideas that can come from having diverse speakers on educational panels.

We have to be deliberate in welcoming all people and working to break down barriers that have existed historically. When speaking in front of students, we aim to have a variety of different roles and educational backgrounds represented. We also try to be intentional about representation among race, class and gender. Having grown up in Vermont, similar to many of the VCIEL members, we thought we had to leave the state to have career opportunities such as this. When they see alumni from the very schools they are attending, with the same history of growing up in rural areas, students see that they don't have to leave. In fact, Vermont is the centre of excellence for this industry, and you want to stay where the action happens. Frankly, if students cannot relate to the people in front of them in a variety of ways, they won't believe that they belong or take that first step to enter into this industry.

How does Vermont's status as a leading captive domicile benefit those building a career in the industry locally?

Many Vermonters do not know Vermont is a global centre of excellence for captive insurance regulation and services, or there are many opportunities in Vermont to enter into this industry and grow to become exceptional leaders. They can become, for example, world class regulators, captive managers, actuaries, auditors, investment managers or attorneys, right here in the state.

A key part of what the VCIEL does is to make the captive insurance industry more accessible and understandable. There are endless people here that emerging professionals in the local community can tap into, but first they have to know about Vermont's role as a global leader and understand on the most basic level what captive insurance is. It feels good to know that we are getting there together. ■

"We have to be deliberate in welcoming all people and working to break down barriers that have existed historically"

Brittany Nevins
Captive insurance economic development director
State of Vermont

A modern offering

The North Carolina Department of Insurance's Lori Gorman and Joe Rosenberger explain what is attracting and retaining captives for small and mid-sized companies in the state

How have recent market conditions influenced the decisions of small and mid-sized companies in North Carolina to increasingly utilise captive insurers?

The continued hardening of the commercial marketplace, coupled with inflation, has compelled North Carolina business owners and others to explore alternative ways to manage their risks. Businesses with strong loss prevention programmes are continuing to find value in the formation and operation of a captive insurance company.

What specific advantages are captives providing to small and mid-sized North Carolina companies to help navigate challenges such as reduced capacity and rising costs in the commercial market?

North Carolina companies and other businesses have used captives to access the reinsurance market for increased capacity and more favourable pricing. When forming a captive, many small to mid-sized companies have also found it beneficial to consider forming cell structures in North Carolina. This is due to the potential for lower initial capitalisation requirements, more efficient and lower cost formation as well as the ongoing cost savings a cell structure provides.

What factors are driving the growth in captive utilisation for areas like property coverage, cyber risk, and employee benefits among companies in North Carolina?

As discussed earlier, the hardening market has seen many North Carolina companies exploring a captive solution as an alternative to traditional risk management options. There is strong interest in formations as well as increased use for property coverage, cyber risk and employee benefits.

Captive insurers often provide for more customised insurance coverage in niche areas.

Are there any regulatory considerations or initiatives in North Carolina aimed at facilitating captive growth and innovation for the small and mid-sized company segment?

The modern nature of the North Carolina General Statutes, passed in 2013, lends itself to the continued growth of the North Carolina captive programme. The state is an attractive domicile as it continues to offer low-cost formations and operation of captive insurers.

"There is strong interest in formations as well as increased use for property coverage, cyber risk and employee benefits"

Lori Gorman
Deputy commissioner
North Carolina Department of Insurance

No fees are charged for the formation of a captive or at any time thereafter. There is no regulatory requirement for scheduled examinations by the department, with the exemption of risk retention groups, and premium tax rates are competitive with those charged by other states.

Legislators are also considering bringing back a premium tax holiday for captive insurers choosing to re-domesticate to North Carolina.

Could you highlight successful captive implementations by small and mid-sized North Carolina companies, explaining how captives have contributed to their operational resilience and stability?

Companies in North Carolina that have formed captives have been able to use their captive in a way that benefits their organisation, whether through the captive insuring a portion of the risk portfolio directly, accessing the reinsurance market or obtaining customised coverages. Captives were also extremely beneficial during the Covid-19 pandemic; not only as a risk management mechanism, but also as a source of cash flow through the issuance of dividends and loans to the parent company from excess surplus.

"Companies in North Carolina that have formed captives have been able to use their captive in a way that benefits their organisation"

Looking ahead, what is North Carolina's strategy to remain an attractive domicile for small and mid-sized captive businesses as market dynamics continue to evolve?

North Carolina will continue to leverage its modern captive insurance law which provides flexibility in captive insurance regulation. We aim to build and maintain positive working relationships with trusted service providers in the industry. Captive owners will find a business-friendly environment and an excellent customer experience provided by a knowledgeable, dedicated staff. ■

"North Carolina will continue to leverage its modern captive insurance law which provides flexibility"

Joe Rosenberger
Chief captive analyst
Captive insurance companies division
North Carolina Department of Insurance

Captive Lake City

Travis Wegkamp provides CIT with an overview of Utah's progress in the captive market, highlighting key regulatory changes and his future aspirations

What was the overall percentage growth in total written premiums for Utah captive insurers in 2023 compared to 2022?

The premium numbers for 2023 should be confirmed in April, in line with annual statement submission dates. However, I can say that in 2022 our total written premiums increased by 4 per cent over 2021.

Based on observing similar growth for 2023, I expect to see a comparable increase in premiums of 4 to 5 per cent. In any case, my expectation is that we will surpass the US$2.3 billion mark for total written premiums last year.

Which lines of insurance saw the highest premium growth for Utah captives in 2023? Were there any notable new trends in the industries or types of companies forming captives in Utah last year?

Looking at current trends, and in light of the continued hard market, I expect to see a decent increase in property and general liability premiums. I am also expecting to see an increase in cyber security.

New captives for professional services type companies far outpaced any other sector. All other sectors saw a similar number of new formations, continuing the trend from 2022.

What regulatory or legislative changes impacted Utah's captive insurance industry in 2023, and are any further changes planned for 2024?

There were two key changes to captive legislation in 2023. One was the possibility for a pure captive to form with a reduced minimum capitalisation amount.

Based on analysis of the captive's total annual exposure from its policy, it's possible they may form with a minimum capital amount of US$50,000.

During these hard market times we saw a need for smaller companies to also have access to the benefits of their own standalone captive, and not just the sole option of a cell. Additionally, we made it easier to form an association type captive by removing the one year of existence requirement for the parent association.

For 2024, we have several proposals currently before the Utah legislature that we believe will considerably increase our competitiveness and continue our cost-effectiveness as a domicile. We have proposed to lower the minimum capitalisation requirement for a sponsored cell structure from its current amount of US$500,000 in total, with a minimum of US$200,000 from the sponsor or core at all times, down to minimums of US$250,000 and US$50,000 respectively.

In addition to this, we have proposed to remove the mandatory five-year examination period for captives. Instead, examinations will be called as needed under the discretion of the commissioner. With the mandatory five-year period we did have the opportunity to accept an audit in lieu of the examination, but with this new revised language we won't have to go through that process.

The current legislative session concludes on 1 March, so we'll know by that time whether the Bill (SB0031) passes or not. We expect it will, and assuming it passes in its current form, the changes will become effective 1 May 2024.

How would you assess the overall health and competitiveness of Utah's captive insurance market compared to other leading domiciles as we enter 2024?

We are exceptionally proud of our success as a captive domicile. In 2023 we concluded our 20th year since the passage of captive legislation in the state. In that time, we grew to see Utah become the second largest domicile in the nation and fourth in the world for licensed risk-bearing entities.

We are consistently seeing over US$2 billion in premiums and close to US$10 billion in assets under management. All signs point to continued success for Utah!

During the upcoming year, what do you perceive as Utah's top opportunities and challenges? Does Utah have any major initiatives planned in 2024 to attract more captive business to the state?

Our key goal going forward is to increase our international presence. We wish to let companies around the world know of the beauty and opportunities that abound in Utah, and that it's the best choice for them to place their captive.

We recently announced that Utah is open to cannabis-related captives. In line with Utah's current laws on the use of cannabis, captives will be restricted to those that operate in the medical use space. Coverages for recreational use operations will not be permitted at this time. ■

Travis Wegkamp
Captive insurance director
Utah Insurance Department

On a roll

Sam Komo, insurance manager at the Missouri Department of Commerce and Insurance, reflects on progress and challenges for the state’s captive insurance programme in 2023

The year of 2022 was a great one for the Missouri captive insurance programme as we matched our active, licensed captive high of 54 set in 2018.

That momentum continued into the first quarter of 2023, with another captive being licensed within the first two weeks of the year and multiple discussions on potential new applications.

As we entered the second quarter of the year, the IRS published a proposed rule on 831(b)s, and with the concern of an economic recession, most applications were put on hold. However, this didn't stop the ongoing discussions around the hard market and how to utilise captives as a solution.

We found ourselves talking directly with the business community as they worked to understand the captive realm, shopping for service providers or domiciles and expanding current lines of business within their portfolio.

In the last two quarters of the year, it became evident that the industry was looking for creative solutions to complex risk issues. Primary concerns surrounded the 831(b) ruling, the need for expansion within the captive market and how to support the traditional market with captive solutions.

Missouri confronted these challenges by working with industry experts and stakeholders to find answers to these challenging questions. The results of this collaboration included an expedited licensing process for the 831(b)s looking to modify their IRS designation to an 831(a).

Opening investment opportunities and reducing the review time for business plan change allowed companies to change or expand coverage to address market fluctuations quickly.

It also meant that traditional providers, who were directly affected by catastrophic events, could be educated on the benefits of utilising captives to manage future risk in their industry.

These partnerships, creative ideas and use of the flexibility within our laws ensured the captive industry in Missouri had ample opportunity to grow.

After a productive year, Missouri saw 55 active licensed captive companies at the year-end of 2023. Critics may say it was a flat year for the state, but we know the number of active captives in a state is open to local interpretation: the reality lies behind the initial number of captives being reported.

In Missouri, we value a strong team that can perform everything from application to examination in-house, which translates into quality services while minimising the overall cost of doing business for our licensed captive companies.

This is accomplished by supporting captive growth and protecting its success. In return, premiums increase and the programme continues to offer great value to the industry.

While the final 2023 numbers do show overall industry growth, we believe it was the year of existing captive expansion and a push to find creative solutions in an ever changing industry.

Since Missouri quickly confronted these challenges and prevailed, we believe the programme is in a positive position for 2024.

Despite the future economic outlook being still uncertain, conversations have resumed with last year's captive applicants who are ready to proceed while new relationships are quickly being developed with the same level of energy seen this time last year.

The rise in gross written premium of 142 per cent year-on-year in 2023 continues to confirm our commitment to captive growth. ■

Sam Komo
Sam Komo
Missouri Department of Commerce and Insurance

Bridge-it

Atlas Insurance PCC's Ian-Edward Stafrace shares how innovative cell solutions can simplify cross-border insurance

Brexit's aftermath has thrust the EU and UK insurance sectors into a further complex regulatory and operational environment, creating barriers to entry for captives and insurers, particularly concerning cross-border activities. Atlas Insurance PCC's (Atlas') strategic UK branch expansion is emblematic of the industry's drive to simplify cross-border insurance operations through innovative and flexible cell solutions with access to both EU and the UK insurance markets, transcending geographical and regulatory barriers.

Protected cell companies (PCCs) can foster adaptability and growth within the captive and insurance industries, through established cells offering tangible benefits for captive owners, risk managers and insurance intermediaries. This, in turn, highlights the advantages of EU-based PCCs and the bridge Atlas can provide across the EU and the UK.

Post-Brexit insurance landscape

The end of passporting rights, which allowed UK-based insurers to cover risks and sell their services across the European Economic Area (EEA) without needing separate authorisations and vice versa, has led to a re-evaluation of business models.

Companies are now often compelled to obtain licences in both jurisdictions, establishing a presence in the EU and the UK to preserve market access. Facing multiple regulatory systems complicates cross-border insurance operations and increases administrative burdens and costs. Some have restructured their insurance programmes, often pursuing costly fronting arrangements.

Amid these regulatory upheavals, the insurance sector has also witnessed technological advancements rapidly transforming the industry, introducing new opportunities for digitalisation and innovation.

Insurtechs are challenging traditional models, while established companies are increasingly partnering with insurtechs and using technology to enhance efficiency and customer experience. These same insurtechs are striving for solutions that transcend borders.

Role of PCCs

PCCs can be a cost-effective and flexible solution for managing cross-border insurance complexities. They have the potential to cater to diverse sectors, from bespoke captive solutions for organisations self-insuring in a more controlled and cost-effective way to insurtech innovators that leverage digital advancements for enhanced customer experience, all without the costs and burden of establishing and manning separate legal entities.

A PCC acts as an umbrella entity housing and transacting for multiple distinct 'cells' within the company, each with its own assets and liabilities. The cell's assets are segregated and shielded at law from liabilities of other cells or of the non-cellular core, providing confidence to cell investors.

Pooling resources and sharing functions significantly reduces setup and operational costs compared to forming standalone entities. Their structure allows for rapid adaptation to new regulations and market opportunities, with each cell operating independently but under the umbrella of a single entity's shared licence, knowledge and resources. The PCC model ensures regulatory compliance across jurisdictions within the PCC's licence to operate without the need for separate entities, and enables quick market entry and product launch.

Strategic UK expansion

Having been active in the UK since 2010 and recognising the challenges Brexit brought, Atlas has established its first physical branch outside Malta in the UK. At the same time, Atlas has become the first EU-based PCC with a UK branch licence. This milestone reinforces Atlas' century-long innovation legacy, supporting the continuity and growth of seamless cross-border insurance services across the UK and EEA. For instance, a business facing surging premiums across the UK and EU for its compulsory financial lines insurance created a cell to insure its own risks directly. The cell helped the organisation achieve compliance, reduce costs and complexity and access broader reinsurance markets tailored to its risk appetite.

A Vermont-domiciled captive with a Gibraltar-based subsidiary lost the ability to cover its European risks directly post-Brexit. The premiums were too low to be viable for traditional fronting carriers. Through its active non-cellular core, Atlas rapidly insured these risks, reinsuring back to the captive. This incubation provided a quick solution within a few weeks, which allowed the captive owners more time to consider setting up a dedicated cell as a longer-term solution for its European risks.

In the insurtech space, an intermediary providing embedded insurance established a cell to become its own carrier, thus gaining control over capacity, retaining profits and expanding offerings across the EU and UK. The provider could better test, refine and scale its solutions without relying on insurers and the substantial time, investment and expense required to set up an insurance company. As an independent PCC host, Atlas also extends the win-win opportunities for global insurance and captive management companies, brokers,consultants and their customers, whether for retail insurance or captive risk financing.

Life reinsurance

The choice of Malta as a jurisdiction for reinsurance cells and companies has also increased in recent years, reflecting stakeholders' growing preference for entities to be brought back onshore within the reputable EU regulatory environment and substance expectations.

In a significant development, Atlas marked a further milestone in 2023 by becoming the first non-life insurance PCC to broaden its licence to encompass life reinsurance. This pivotal move was a direct response to the evolving demands of the market.

The first cell benefitting from this broader licence reinsures consumer products with both non-life and life covers. There is also the notable potential for reinsuring employee benefits such as group life. Cells hosted by Atlas can, therefore, directly cover non-life risks across the EEA and UK markets and reinsure life and non-life risks, providing a wide range of insurance solutions under a single, streamlined structure. This development underscores the growing importance of PCCs in delivering efficient, versatile insurance solutions to meet evolving industry demands.

Future outlook

In a rapidly changing global insurance landscape, the role of PCCs is set to become increasingly significant. Amid technological progress, a heightened emphasis on sustainability, and evolving regulatory demands, PCCs provide a nimble framework for innovation.

PCCs also use their structures to address ESG considerations, supporting sustainable practices and managing emerging climate-change risks, thereby meeting the increasing stakeholder expectations and demand for responsible and ethical business practices. Additionally, cells can serve as a tool for pre-funding and managing uncertainties related to future risks, enabling organisations to proactively plan for and address these risks with the support of actuaries and reinsurers. Cells can also align investments with sustainable funds that are potentially ESG-rated, demonstrating a commitment to sustainability facilitated by regulations such as the EU Sustainable Finance Disclosure Regulation (SFDR).

Agile adaptation is critical. PCCs offer flexible structures that empower organisations to cost-effectively manage capacity, risks, sustainability, and international compliance. PCCs are also becoming digital innovation hubs, enabling partners to create future-tech insurance products with enhanced customer experience. They are adept at navigating the regulatory terrain, ensuring cell owners can seize new opportunities while aligning with stakeholder expectations like customer fair value and the broader ESG reporting landscape.

For captive owners, risk managers, and insurance intermediaries, the message is clear: the future of insurance lies in embracing modern adaptive solutions. The challenges of cross-border insurance, while significant, are surmountable with the right approach and tools. PCCs and innovative cell solutions represent an important step forward, offering a pathway to thrive in the current environment. ■

CICA and you shall find

CICA President Dan Towle hails the captive industry's rapid growth, showcased by record attendance at the 2024 Conference, and outlines emerging trends – from talent initiatives driving diversity to private equity's influx shaking up the job market

Can you provide us with an overview of the key highlights and achievements of the CICA 2024 International Conference?

From the comments I am hearing, people cannot say enough good things about this year's CICA Conference, which had a record 665 attendees.

When you bring together the best minds in the industry and they are all willing to share the latest insights at CICA's domicile-neutral event it creates tremendous positive energy and good things happen because of it.

Sessions were well attended. Whether it was the standing-room-only fronting and reinsurance session, the tax update, or captive strategies for addressing challenges related to the increasingly expensive property market.

Participation in CICA's NEXTGen and Amplify Women programmes grows continuously. Our joint networking programmes have taken off. We were at capacity for this year's conference luncheon event. The momentum with those two initiatives is exciting and we encourage those who are interested to visit our website for more information.

What specific factors contributed to the remarkable growth in CICA's membership and attendance at this year's conference?

We have a great association that attracts many of the leading captive owners and service providers in our industry. The captive industry is experiencing rapid growth and people are looking for innovative strategies and the resources they need, both in-house staff and service providers, to achieve their risk management goals. CICA is known for providing top-quality education and networking.

Annually, we host an outstanding conference where our domicile-neutral environment brings together growing numbers of participants from every sector of the industry including our association and regulatory partners. Throughout the year our programmes to attract and develop a diverse talent pool for the captive industry provide opportunities for learning, serving on committees, giving presentations and networking across the industry. Seasoned professionals have a platform to share their knowledge by providing career advice and captive management guidance.

How do you perceive the current state of the captive insurance industry, and what trends do you anticipate shaping its future?

Captive insurance is experiencing a period of continued growth and prosperity. This extraordinary growth involves new captives being formed, the expanded use of existing captives, and new domiciles emerging around the world.

As more businesses turn to captive insurance, the captives are becoming more sophisticated than ever and more strategic. New technology, better data and evolving risk strategies are giving captives the edge in providing coverage ahead of what the commercial market can provide.

We are also seeing continued interest from private equity firms regarding making investments in captive management and other areas of the captive insurance industry. This is providing needed capital for organisations to grow and have the money to pay higher than average wages to hire key people as retirements, creating new opportunities. With the increased wage pressure and higher demand for qualified individuals, I expect to see even more people on the move.

While this will cause some short-term pain, ultimately this may be a good thing for the industry. The wage pressure will help our industry attract top talent. If the captive industry's reputation is as a high-paying sector, it will be easier to attract talent.

Could you elaborate on the significance of the NEXTGen and Amplify Women initiatives in fostering diversity and talent development within the captive insurance sector?

Finding talent for our growing industry continues to be a priority, and what CICA is doing with Amplify Women and NEXTGen goes towards overcoming some of the challenges we have not addressed in the past. Further, developing a broader, more diverse pool of potential captive professionals is an important growth strategy.

Diversity can have positive effects on business performance from greater innovation and skill sharing to increased productivity and higher revenues.

Some reports show that diverse teams deliver 60 per cent better results and make better decisions up to 87 per cent of the time.

CICA is proud to be leading this effort for the captive insurance industry and firmly believes we are making a difference.

With the increasing participation of women in speaking roles at the CICA Conference, what benefits or impact do you foresee for the industry as a whole?

When you have a group of talented people cheering for each other and supporting each other, it is amazing what you can accomplish. One of Amplify Women's initiatives is to support more women as speakers at industry conferences.

This allows the women to showcase their talents and expertise. We are excited that 46 per cent of our speakers at the CICA Conference were women. It is great for both our attendees and our industry.

Being domicile-neutral allows CICA to bring together the best speakers regardless of domicile affiliation. Our industry is composed of many female experts, and we are proud to give them an opportunity to showcase their expertise.

CICA is not only leading in this area in the captive industry but also leading in the broader insurance industry.

Could you share insights into the criteria and process for selecting CICA Awards and Essay Contest winners, and what distinguishes them in the industry?

The captive insurance industry is rich with individuals and organisations that have shaped and fostered its growth. CICA's annual awards are designed to honour their generous contributions of knowledge, leadership and best practices.

Their contributions and successes often span decades and have benefited the broader industry, not just an individual domicile. Anyone can be nominated for the awards and our CICA Board members make up the award selection committee.

Our essay contest is judged by a diverse mix of experts from our CICA board of directors, ensuring the essays are evaluated from differing views and perspectives.

Essays are scored on the quality of their research, how they addressed the risk management and insurance issues and their use of innovative ideas.

Looking ahead, what are some of the key priorities or initiatives that CICA plans to focus on in the coming year to further support the growth and development of the captive insurance community?

With record membership, we are in the unique position of exploring and expanding member benefits.

The member survey results gathered in 2023 yielded requests for additional high-quality education and the continuation of meaningful networking opportunities. We look forward to where these conversations will take us and to our commitment to providing high value to our members.

We plan to continue building off the strong foundations already established by our NEXTGen and Amplify Women Committees. While we have had great success, there is still much more to do. I expect both initiatives to expand and we will see more involvement from a broader group in the coming year.

We have increased our commitment to our federal advocacy resources in Washington, D.C. We feel this is critical as our industry continues to grow, and it is important to have key representation to support and defend our industry as we are often challenged by being misunderstood. ■

CICA unveils the winner in the Student Essay Contest on Captive Insurance Solutions

The Captive Insurance Companies Association (CICA) announced the winner of its annual Student Essay Contest at the 2024 CICA International Conference. The contest challenges college teams to devise captive insurance strategies for real-world risk management scenarios.

Captive Insurance Times is honoured to be an official media partner with CICA and to have the privilege of showcasing a Q&A with each of the students and publishing each of the finalist essays.

The annual contest invites two-person teams of college students from a variety of disciplines including insurance, risk management, actuarial science, finance and business management.

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captive insurance times

Butler University

Bailey Sims

What interested you about the CICA Essay contest Captive Insurance Solutions for Today's Risk Management Challenges?

The CICA essay contest interested me because I was excited by the opportunity to work through a problem that I could be faced with in my future career. This contest was the perfect opportunity to be able to apply my knowledge of insurance and the captive industry in a practical way. Finally, this contest also challenged me to think critically and collaborate with my partner to develop a creative and unique solution for our chosen organisation.

How was captive insurance helpful for your chosen organisation?

Captive insurance allowed us to address the concerns of our chosen organisation, Vane University. Through the use of a captive structure, we were able to find a solution for Vane University's increasing premiums and unique risks and provide them with adequate coverage for their general liability, vehicle liability, and selling of liability and property insurance. By using the cell captive structure, we were able to address each concern and provide coverage for each risk individually. The cell captive structure allows Vane University to diversify its risks into three separate coverages, as well as provide them with the option of adding more cells for future risks.

What did you learn about captive insurance while researching and writing your essay?

While doing research for this essay, I learnt a great deal about captive insurance and the captive insurance industry. One of the biggest takeaways I had was how in today's economic climate and hard insurance market, captive insurance is not only a sensible insurance option but also a beneficial one. Captive insurance is flexible and specific to the insured's needs, allowing the insured to receive the necessary coverage they need that they cannot access in the traditional insurance marketplace.

How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?

Through the contest and the research process I have learnt so much more about captive insurance. Prior to the contest, I had limited knowledge of the captive insurance industry. I understood the basics of captive insurance and the more popular captive structures. However, through this contest, I was able to learn about other captive structures and apply my knowledge to problems I may face in a future career.

Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?

Before this contest, captive insurance had not piqued my interest. I always saw myself going into traditional commercial insurance on the service side. However, after my participation in this contest I am curious about what a career in captive insurance would look like. The part of captive insurance that I find the most interesting is the fact that the risks you insure are more unique and interesting, allowing you to develop creative coverage solutions for your insureds.

How does your college coursework align with a career in captive insurance?

Butler University's Risk Management and Insurance programme has introduced me to the numerous opportunities available within the insurance industry, including captive insurance. In fact, Butler University provides a Captive Insurance Operation class that covers many topics relating to captive insurance and other alternative risk financing mechanisms. Butler University also has a student-run captive insurance company that allows students to gain hands-on experience through underwriting and the handling of real risks. Finally, Butler University's Gamma Iota Sigma Chapter hosts many guest speaker events and invites numerous insurance companies, including captive insurance firms, to come and speak to the students. ■

Bailey Sims

Bailey Sims is a senior at Butler University studying finance, risk management and insurance. She is a member of several clubs and organisations including Beta Gamma Sigma, Gamma Iota Sigma, and Butler's environmental club EcoReps. Off-campus she is a competitive Irish dancer, competing in national and international competitions. After graduation, she will work at Shepherd Insurance in Carmel, Indiana as an Associate Commercial Lines Account Manager.

Butler University

Harrison White

Harrison White is a senior studying risk management and insurance at Butler University. He grew up in Cleveland, Ohio. In the past, he interned in an underwriting role at Great American Insurance Group. Currently, he works as an assistant at USG, a wholesale brokerage and MGA, with the hope of becoming a producer. He is the current president of his Gamma Iota Sigma chapter and looks forward to graduation in May.

"I would consider a career in captives. I know it is a growing space and I feel like it is very dynamic. It seems like there is plenty of innovation underway and room for creativity"

What interested you about the CICA Essay contest Captive Insurance Solutions for Today's Risk Management Challenges?

I was intrigued by the opportunity to explore and write about an unfamiliar area of the insurance world.

How was captive insurance helpful for your chosen organisation?

Captive insurance helped Vane secure coverage in difficult markets with rising premiums.

It enabled them to further isolate and understand their unique and multiple risks through cell-structure organisations.

It also unearthed a potential revenue source for the university, should they ever decide to open up and rent their cells to others.

What did you learn about captive insurance while researching and writing your essay?

I learnt that captive insurance and its implementation has great flexibility.

A successful captive moulds to fit an insured's individual characteristics and the fluctuations of the broader insurance marketplace.

How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?

I had a very vague idea of what captives were prior to my research and submission. I still feel that way to a certain extent, due to the sheer size of the space.

However, I think my understanding of the multitude of captive structures available has increased.

Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?

I would consider a career in captives. I know it is a growing space and I feel like it is very dynamic. It seems like there is plenty of innovation underway and room for creativity.

How does your college coursework align with a career in captive insurance?

I am taking a captives course this spring. It is one of the unique features of Butler's RMI programme, as the school has an active and growing captive operation. The class is focused on the captive's management and expansion. It is very hands-on and the students are involved in idea generation and decision making. I am very excited to take the class. ■

2023-2024

CICA STUDENT ESSAY CONTEST

Captive Insurance Solutions for Today's Risk Management Challenges

1

BUTLER UNIVERSITY

BUTLER UNIVERSITY:

Harrison White & Bailey Sims

VANE UNIVERSITY – CELL CAPTIVE SOLUTION

Introduction

Vane University is a public educational institution constructed via historical land grants. The university and its property spreads over 4 physical campuses. The university is a large institution with an enrollment size of approximately 66,000 students and a staff headcount of around 24,000 members. The institution is also heavily involved in its surrounding communities. The university employs extension agents who provide a multitude of services to inhabitants in around 80 surrounding counties.

The university's operations are unique and varied; consequently, the corresponding risks of those operations share these characteristics. Risks arise from academic, research, and operational activities. Loss exposure is especially high and worrisome in some of Vane's everyday operations, such as student housing and food preparation. Additionally, the school's risks span across multiple, distinct campuses. The university must manage physical risks that rise out of their 4 main campuses, while also keeping a close eye on their off campus programs and investments and the risks borne out of those operations. These programs and the extension agent's employed by the school represent an especially difficult risk to quantify and understand, as they are entirely off site and may be more difficult to hold to existing risk controls and safety measures.

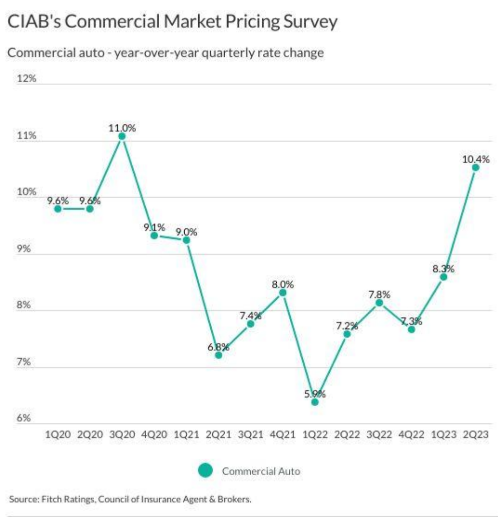
Additionally, the university retains a substantial risk by selling insurance products to third party insureds. The school exposes itself to potential large losses stemming from non-operational activities wherein they may not be able to effectively implement risk controls that standardize and monitor third party insured activities. In the event that a third party insured finds itself underinsured or approaching insolvency, the university's direct assets and personal insurance contracts may be at risk in a claimant lawsuit.

Specifically, the school carries general liability, auto liability, workers' compensation, and property insurance. As touched on earlier, they also sell these products to individual campus departments and third party affiliates. The school struggles with reaching capacity for its general liability and auto liability policies. They also struggle with rising premiums in those vicinities. It's attributable to increased frequency and severity of claims, as well as greater trends within the insurance marketplace. The university currently places all of these policies with a broker, through the traditional, commercial insurance marketplace.

Insurance Marketplace

The insurance market has been faced with a hard market due to the lasting effects of the COVID-19 pandemic including increased interest and inflation rates. These increases have had a large impact on commercial lines, leading to increases in claims costs and renewal premium rates. In fact, during the first half of 2023, an estimated $16,000,000,000 was paid out in additional claims costs. These additional claims costs led to a 14% increase in total claims costs, with a 30% increase in commercial property claims costs, driven by increases in inflation and catastrophic losses (Holzheu & Finucane, 2023). Commercial insurance segments have not only seen an increase in claims costs but have also seen an increase in premium rates and a reduction in coverage options.

Premiums have risen in all lines of commercial insurance, including auto and property. Commercial auto has seen significant increase in premiums due to the post-pandemic economic environment. Within the commercial auto insurance segment, there has been an increase in loss severity due to the higher inflation rates, supply chain and labor shortages, and increasing vehicle costs (Auden et al., 2023). The increase in loss severity has led to stricter underwriting guidelines, which in turn has led to an increase in renewal premiums. According to the Council of Insurance Agents and Brokers, since 2017 increases on renewal premiums average over 8%. In the second quarter of 2023, renewal premiums reached 10.4% (Auden et al., 2023). In the same quarter, commercial property premium rates increased 20%, while the average rate increase for all commercial lines was 8.9% (Holzheu & Finucane, 2023). The increase in claims costs and premium rates has made it more difficult for companies and businesses, including Vane University, to find adequate coverage at affordable rates.



Captive Marketplace

In hard insurance markets, corporations are compelled to think creatively about their insurance structure. They often experience issues with securing adequate capacity. Simultaneously, they face punishment through rate increases and more stringent underwriting. Friendly products are stripped from the market, making way for exclusion-laden, insufficient policies.

Within these environments, organizations are sometimes drawn to alternative forms of risk control. One possibility is for organizations to part with insurance, and retain all of their risk. This is extreme, but there are plenty of options in self-funding. These include arrangements such as risk retention groups, capital market risk transfers, and captive insurance companies.

Captives are insurance companies established and owned by a business or group of businesses to manage and underwrite their own risks. They exist for a number of reasons, but mainly to reduce reliance on external commercial insurers. Captives have been in existence for over 100 years, although the actual term was coined in the 1950s (NAIC). They represent a growing marketplace, too. In 1980, there were around 1,000 domiciled captive insurance operations in existence. Recently, that figure was tracked at over 7,000 captives in existence (NAIC). For a period of time, Bermuda was the only eligible place of domicile for these sorts of entities. However, there are now more than 70 jurisdictions with established legal frameworks for captives. The U.S. is at the forefront of this growth, as many states aim to attract new business and resources by establishing captive-friendly legislation.

Within the captive marketplace, there are a number of varied captive structures, each with its own structural and legal requirement differences. Single parent captives are wholly owned by the businesses that they insure. This structure allows the insured to set premium rates with more accuracy, customize insurance solutions through direct access to the reinsurance market, and establish a positive long-term cash flow through personalized risk management and loss control techniques. At the same time, single parent captives possess a higher barrier to entry due to rigid formation requirements and a high initial capitalization requirement.

Group captives are owned and operated by multiple insureds. Competitors within a common industry are one potential realization of this concept. These insureds pool resources together to devise a functional insurance company with all of the benefits present in single parent captives. Like competitors in a common industry, group captives are most effective when their insureds share similar risks or are in similar classes. Unlike single parents, group captives are less expensive to establish and they benefit from the law of large numbers. Apart from these two major types of captives, there are several other structures that fit the captive or near-captive classification. These include association captives, risk retention captives, and rental captives. The cell structure captive, or segregated account company will be explored in detail.

Proposition for a Captive Arrangement

Vane University would be well reasoned to enter the captive space. First, they hold the necessary premium size to make a captive investment attainable. Secondarily, they have experienced difficulties in reaching full capacity for their general liability and auto liability coverages. A captive program would enable them to converse with reinsurers directly, and establish towers with appropriate risk retention and risk ceding. Additionally, the university struggles with rate increases. Establishing a captive program should enable them to stabilize their annual premium rates to a higher degree. They may even garner underwriting profits should they effectively reduce risk and mitigate losses. Furthermore, the university's direct sale of insurance products to individual departments and third party affiliates is troubling, as it stands. It's inefficient and leaves the university potentially liable for claims made against these lower limit policies. This is not to mention that it opens the school up to a whole host of errors and omissions claims possibilities. As discussed later, a cell structured captive would directly remedy these issues.

Cell Captive Arrangement

While single parent captives are the most popular retention structure historically, recent market conditions and consumer demands have given rise to newer, more flexible arrangements (Canadian Underwriter). One notable design is the cell structure captive. It's one of the fastest growing captive arrangements. Marsh notes that the number of new cell captives sold and managed by their organization grew by 49% in 2021, alone.

The cell structure captive is traditionally linked to rental captive companies. It consists of a central core component and any number of separate individual cell components. The core is responsible for cell captive formation, governance, fronting company or captive management relationships, and other administrative functions. Meanwhile, these separate cells serve as distinct insurance captives for individual businesses or assets. They are initially capitalized and hold their surplus reserves at the cell level. Assets and liabilities between cells are segregated from one another via a concept called “ring-fencing” (KPMG). This means that cells are protected from each other. The core is also generally protected from actions of or against individual cells if non-recourse agreements are built into the captive’s structure.

As mentioned earlier, this structure is especially beneficial for smaller businesses looking to rent a captive. Organizations with less than $1 million a year in premium typically do not hold the financial resources requisite to incorporate and sufficiently capitalize their own captive operations. In the rental structure, captive managers, brokers, or others incorporate a cell structure, building out and taking responsibility for the captive’s core components. Once the core is complete, the captive owner may begin incorporating new, individual cell captives and start renting them out to organizations in a ready-made fashion. As a note, there are no hard limits on the number of cells allowed per core structure, and the process of scaling up is straightforward. In these arrangements, core-owning landlords receive steady payments from cell renters with minimal liability exposure of their own. In exchange, cell renters receive a functional captive vehicle that serves as a viable, near-term solution.

While the cell structure most commonly serves groups of smaller, independently owned organizations in cells, it is applicable in other scenarios, as well. For instance, a single large organization could look to implement a cell structured captive to insure its operational risks. In this particular scenario, the cell structured captive may be more appealing than a single parent captive if coverages and liabilities throughout the organization are heterogeneous. It also may be an effective scheme if a parent company holds several subsidiaries. In both instances, the large organization is able to divide dissimilar liabilities and their distinct funding into separate, segregated cells (American Bar Association). At the same time, the organization is able to control and customize the core structure of the overall captive to its liking. This approach successfully classifies and categorizes organizational risks, and effectively ring-fences independent coverages and subsidiary businesses. It also maintains the flexibility of the organization and leaves room for future expansion of captive operations. It even supports the addition of third party tenants into new cells, unearthing a new potential revenue stream for the organization (Captive International).

Proposed Program

Vane University most likely pays for more than $1 million in insurance premiums annually, so much of its framework fits within that of the hypothetical large organization discussed previously. In analyzing its risk exposures, a cell captive structure with 3 segregated cells and a main core best resolves the university's issues while fully employing the unique features of the particular structure.

Like theorized, Vane will first incorporate a core captive that links the branched cells and performs governance duties. Of its three cell captives, one will contain the university's property and worker's compensation coverages, another will involve their general liability and auto liability coverage, while the final will consist of their insurance policies written to external groups and third party affiliates.

The property and worker's compensation coverages will remain separate from the general and auto liability coverages because they should be easier to fund via reinsurance arrangements. At the moment, Vane does not have loss frequency or severity issues with either of the lines. In theory, they could remain exempt from the captive entirely and kept as commercial insurance policies. However, facultative reinsurance could be of use in the captive for the property risk, and especially with respect to the university's historic buildings. In particular, they may have features and nuances associated with reconstruction costs that are better suited for the non-admitted market. Additionally, if current property trends and carrier cutbacks continue, the preemptive placement of property within a captive arrangement could keep the university ahead of the market.

The second cell isolates the university's coverages with high frequency and high severity loss histories. Because they are having trouble securing adequate capacity in the admitted market for general and auto liability, the cell should enter an excess of loss treaty with a reinsurer, for occurence losses over $1 million dollars. Anything beneath this threshold should be retained by the university, as the funds that used to flow out as premiums will now be redirected to fund these lower severity losses. It almost acts as a high deductible policy and if the university is able to effectively lower the frequency of its losses through proper risk controls, the redirected funds will remain as invested assets in the cell, rather than persisting as a premium payment and a cash outflow.

Before advancing to the third cell and its structure, it's important to highlight a few more benefits to the creation of the first two cells and their subsequent segregation by loss experience. First, the separation of problematic coverages from low loss coverages creates more clarity for the organization. When the failures of one cell are directly compared to the successes of another, there should be more of a visceral reaction and desire to implement loss controls internally. The losses cannot be hidden. Continuing, the use of multiple cells allows the organization to manipulate initial capitalization rates and surplus commitments slightly. Because each cell is only responsible for its own assets and liabilities, capital commitments could be theoretically staggered as capacity is scaled up slowly over time. Another benefit of the cell segregation is the potential to offset profits and losses from either account in dividend distribution. Extending further, the presence of two cells allows for creativity in dividend distribution, as different rules may be set for each cell. An additional related benefit is the ability to implement different investment strategies. Not surprisingly, cell captives are not just found in insurance operations, but also have extensive application in a multitude of wealth management and general investment capacities.

The third cell is pivotal and marks the most important segregation of components within the university's captive program. Here, the organization's class of third party policies issued to business partners and outside programs will be deposited. These policies are important to separate because they represent an entirely different risk. It is simply a good protective measure for the university to separate its personal liabilities and retention funds from those of the third party. As discussed earlier, a core value of the captive structure is in its ability to ring-fence one cell and its contents from another. In addition to the exposure reductions, the creation of this third cell allows for separate reinsurance measures. In this cell, the university may even consult its third party insureds as to their preferences for a reinsurance arrangement. As a note, cell captives are gaining popularity in the MGA world, and even have their own term; companion cells (Captive International). This particular university operation definitely shares some characteristics with MGAs.

Beyond base captive structure determination, the decision of whether to directly issue policies or use a fronting insurer is also important and plays a fundamental role in shaping the overall captive arrangement. In this scenario, it is advised that the university implement a fronting insurer arrangement. The fronting insurer should help provide expertise in areas of compliance and allow the captive to use its paper for a small percentage fee.

Domicile

As mentioned earlier, the captive industry is experiencing growth, with many new jurisdictions amending legislation to achieve domicile status. While recent legislative changes offer interesting opportunities for choosing domicile locations, it is advisable for the university to designate operations in a location with a proven history of legal judgments that support captives.

Bermuda is the oldest domicile for captives. It is also one of the largest, with 715 captives recognized in 2019 (KPMG, 2017). Bermuda has a large wealth of captive management and consultant talent, as well. This is important as the university looks to identify a fronting insurer partner to write for its cell structured captive. That relationship is key as fronting partners often advise on policy administration, cash flow management, claims management and an array of general administrative functions.

As specifically applies to cell structured captives, the Bermuda Supreme Court formed a precedent in 2010 by validating the concept of ring-fencing and segregation of assets between cells (Aon). This precedent distinguishes Bermuda from its peers, as not all jurisdictions have as clear of a view established on the matter. As a note, Bermuda references cell structured captives as SACs, or Segregated Account Companies. Terminology varies amongst domiciles.

Initial Capitalization

The cell structured captive has a unique capitalization structure in that each cell must capitalize based on the individual risk that it retains. Initial capitalization ensures that liquidity is maintained during the early stages of captive formation. According to Bermuda insurance licensing law, the university may fall within a class 2 license, as only a small portion of their premium comes from third party risk. Under this license, the university must maintain a minimum capital and surplus equal to or above the amount of premium collected, beyond a $250,000 floor (Bermuda Monetary Authority).

Risk Management Techniques

As premium prices continue to increase due to inflation and catastrophic losses, it is important for Vane University to have a risk mitigation plan in place to prevent losses from occurring. In fact, the National Institute of Building Sciences reported that spending $1 on hazard mitigation can lead to saving up to $13 in repair and recovery costs (Bryant et al., 2023). It is important to assess the university's risk exposure in terms of liability and property. As a university, many people visit the campus on a daily basis. Whether it's a student going to class, alumni coming to sporting events, a prospective student on a college visit, or a member of the community walking the campus, it is crucial to understand where and when accidents can occur and have proper signage or items available to notify the individuals of the present risk. It is also important to have the university's property properly valued in the case of a loss to ensure that the university has proper coverage limits in place. In fact, since the increases in inflation and supply chain constraints which have caused property values to rise, many colleges and universities have not updated their property values, leaving them underinsured (Bryant et al., 2023). Since Vane University has many historic buildings, including some on the National Register of Historic Places, it is even more crucial that the university continues to regularly assess its property values as it may impact the replacement and reconstruction costs if a loss were to occur. Implementing a captive insurance operation will not only allow Vane University to have access to the reinsurance market, but it will also increase the university's capacity allowing it to have more coverage for its liability and property (Bryant et al., 2023).

Conclusion

All concluded, establishing a captive insurance arrangement is a worthy pursuit for Vane University. In partnership with reformed loss controls, the cell captive structure will enable the institution to reach full insurance capacity while stabilizing annual premium rates.

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Temple University Team

Gracie Law

What interested you about the CICA Essay contest Captive Insurance Solutions for Today's Risk Management Challenges?

The CICA essay contest was an excellent opportunity to learn and grow as a young professional.

Risk management is a fascinating industry, so the essay contest was the perfect chance to expand my knowledge of captive insurance programmes.

As a curious student, I do my best to take advantage of every learning opportunity, so this was no different.

How was captive insurance helpful for your chosen organisation?

Our chosen organisation was Vane University, a large fictional institution, so establishing a captive insurance programme tailored for Vane tackles the challenges of securing higher coverage limits and rising premiums.

A single-parent captive is a proactive and strategic risk management tool that provides Vane with increased control, the potential for cost savings, and improved overall risk management capabilities in a dynamic environment.

What did you learn about captive insurance while researching and writing your essay?

I gained insight into how captive insurance programmes can customise solutions to match an organisation's distinctive risk profile and the potential financial benefits of a successful captive programme.

During the essay's research portion, I enjoyed learning about the regulatory framework that oversees captive insurance.

How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?

Before entering the competition, I was only familiar with the basics of captive insurance. I now have a deeper understanding of the financial considerations, tax implications and effective risk management strategies involved in establishing a captive insurance programme.

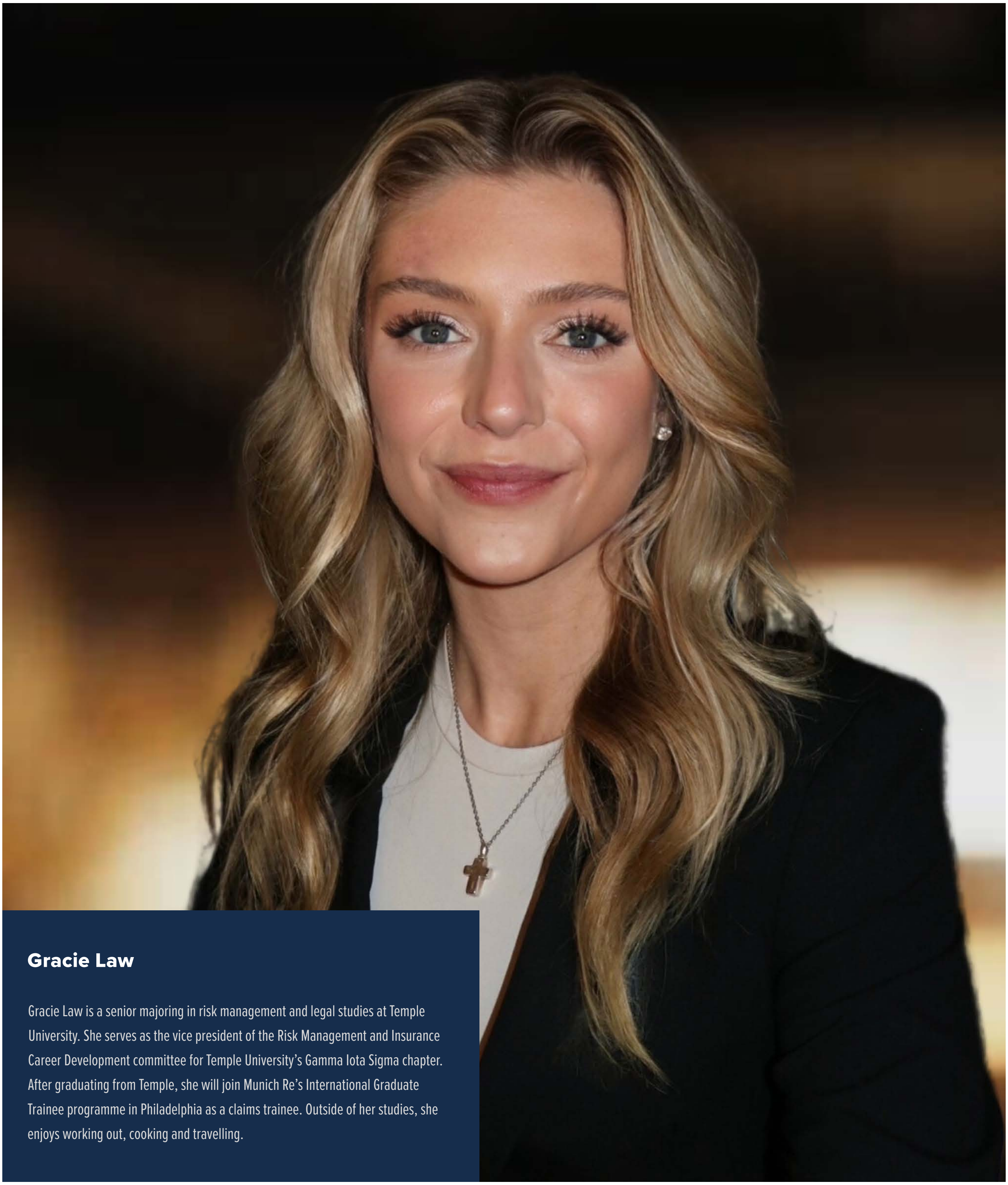
Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?

After this invaluable experience, I am interested in a career in captive insurance because I enjoyed learning about the regulatory and financial aspects. I am excited to begin my career at Munich Re on the claims track post-graduation, but I plan to continue learning more about captives throughout my career. A career in captives is intriguing because it is a creative and growing tool utilised in the risk management landscape.

How does your college coursework align with a career in captive insurance?

Temple University's risk management and insurance programme stands out as one of the best in the country, offering a diverse range of risk management courses that provided me with a solid foundation in the fundamentals of the captive insurance industry.

The Gamma Iota Sigma, Sigma Chapter has also provided various opportunities to learn more about captives through presentations from industry professionals and insight into a career in captive insurance. Sandy Bigglestone, the Deputy Commissioner of Captive Insurance from the Vermont Department of Financial Regulation, will be presenting about her experience in the captive industry for our H. Wayne Snider Distinguished Guest Lecturer Series this semester. I am excited to hear about her career and learn from a powerful woman in the captive industry. ■



Gracie Law

Gracie Law is a senior majoring in risk management and legal studies at Temple University. She serves as the vice president of the Risk Management and Insurance Career Development committee for Temple University's Gamma Iota Sigma chapter. After graduating from Temple, she will join Munich Re's International Graduate Trainee programme in Philadelphia as a claims trainee. Outside of her studies, she enjoys working out, cooking and travelling.

Temple University Team

Sofia Davis

What interested you about the CICA Essay contest Captive Insurance Solutions for Today's Risk Management Challenges?

While entering the world of insurance, I encountered challenges in understanding the complexities of the captive industry. The CICA Essay contest piqued my interest as an opportunity to tackle this difficulty head-on. Participating in this competition would deepen my insights and contribute to my professional growth in navigating risk management challenges within the insurance sector.

How was captive insurance helpful for your chosen organisation?

By implementing a single-parent captive insurance programme, Vane University was able to approach its insurance challenges by designing unique policies to mitigate their specific liability risks. The single-parent captive allows the university to exercise greater control, achieve cost savings over time, and enhance its overall management of handling risks.

What did you learn about captive insurance while researching and writing your essay?

During my research, I gained a comprehensive understanding of the specific steps involved in conducting a feasibility analysis and how crucial this process is to developing a successful captive insurance programme.

How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?

Considering the initial challenges I faced in navigating the captive industry, my participation in the CICA Essay contest has been instrumental in broadening my knowledge of captive insurance and its intricacies. I now feel confident in my understanding of captive insurance, which I look forward to applying in my career.

Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?

I am very satisfied with my full-time position at Conner Strong & Buckelew post-graduation, and I anticipate a long-term commitment to the company.

Given Conner Strong & Buckelew's dedication to providing optimal risk management solutions to clients, it is crucial to have a deep understanding of captive insurance programmes.

That being said, I plan to further my education on captives and collaborate closely with captive insurance experts throughout my career to ensure I provide top-tier service to our clients.

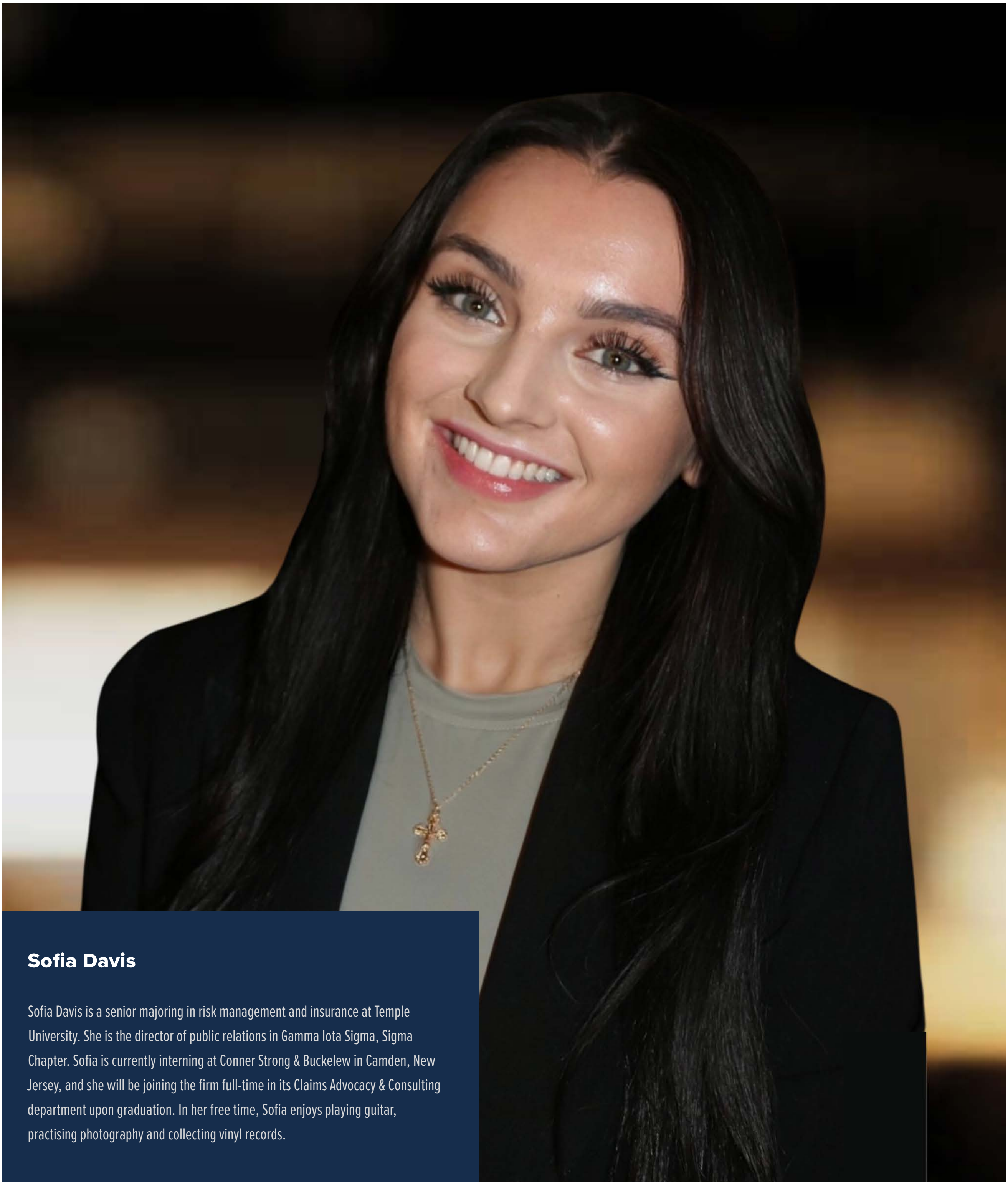
How does your college coursework align with a career in captive insurance?

My college coursework aligns seamlessly with a career in captive insurance.

Being a risk management and insurance major with a concentration in managing corporate risk, my classes are designed to equip students with a thorough comprehension of risk management in complex global organisations.

The curriculum includes specific courses that delve into financing techniques within the property-liability insurance industry and identifying and managing emerging risks.

Temple provides an excellent academic foundation that directly supports the skills and knowledge essential for a successful career in the field of captive insurance. ■



Sofia Davis

Sofia Davis is a senior majoring in risk management and insurance at Temple University. She is the director of public relations in Gamma Iota Sigma, Sigma Chapter. Sofia is currently interning at Conner Strong & Buckelew in Camden, New Jersey, and she will be joining the firm full-time in its Claims Advocacy & Consulting department upon graduation. In her free time, Sofia enjoys playing guitar, practising photography and collecting vinyl records.

2023-2024

CICA STUDENT ESSAY CONTEST

Captive Insurance Solutions for Today's Risk Management Challenges

2

Temple University
Fox School of Business

TEMPLE UNIVERSITY:

Gracie Law & Sofia Davis

VANE UNIVERSITY – SINGLE PARENT CAPTIVE SOLUTION

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Introduction

Vane University offers its students a spacious campus with a rich history, standing tall for over two centuries as a distinguished public institution. The vulnerability of Vane's expansive historical campus has led the university to face recurring challenges similar to those of many other organizations. With the increasing frequency and severity of claims surrounding its general and vehicle liability exposures, affordable and accessible insurance has been challenging to obtain within the standard insurance marketplace. Statistics project that the insurance market will continue to harden in 2024, and the demand for catastrophe reinsurance alone is likely to grow as much as 15% (Deloitte, 2023). With the current and projected state of the market, it would be beneficial for Vane University to implement a captive insurance program.

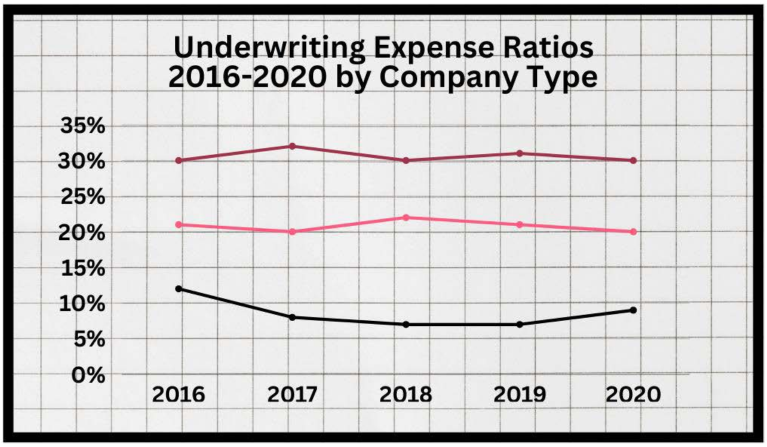
Captive insurance programs offer many benefits to organizations that are less obtainable within the standard insurance market. The interest in using captives is higher than ever, considering its risk funding vehicles have numerous advantages. Captives allow flexibility and control over coverage capacity, operating costs, access to reinsurance, and more. Given Vane's concerns, a single-parent captive program structure will benefit the university, efficiently address the university's increasing frequency and severity claims, and secure higher coverage limits for the university's vast array of liability exposures.

Risk Analysis:

General Liability:

The higher education risk management landscape has grown increasingly intricate due to evolving regulations and legal liabilities. Critical liability risks for universities nationwide are claims stemming from violations of the Americans with Disabilities Act (ADA), sexual abuse and molestation, admission scandals, and Greek life hazing. Universities are highly susceptible to ADA violations, and this exposure stems across various campus operations, such as not providing accommodations for campus facilities, academics, athletics, information technology, dining halls, etc. Another liability exposure for Vane is tort claims because of the university's "obligation to provide a "reasonable duty of care" as "landowners" to those they invite or authorize to use their facilities—like student-athletes" (University Business, 2016).

Vane can secure higher coverage limits through a single-parent captive and combat the increasing liability insurance costs. The average expense ratio for large captives from 2016-2020 was 8% compared to 31% for conventional insurance providers (McMahon & Provines, 2021). The single-parent captive for Vane is likely to maintain an underwriting expense ratio comparable to the industry standard for large captives.



The industry-wide increase in commercial insurance pricing is another reason for utilizing a single-parent captive for its general liability exposure. Commercial insurance prices across the U.S. showed an aggregate increase of just above 6% in the second quarter of 2023 (WTW, 2023). The captive will allow Vane to avoid the increase in pricing and any unforeseeable economic impacts in the future.

Vehicle Liability:

The single-parent captive will also address Vane's concerns regarding market challenges arising from the growing frequency and severity of claims associated with vehicle liability coverage. The commercial auto insurance sector has faced rate increases for the past decade because inflation, supply chain constraints, and greater use of technology have added costs to physical damage losses (Lerner, 2023). The captive program will insulate Vane from market conditions and allow greater control through better managing premium volatility year to year. The university likely has a sizable auto fleet of at least a thousand vehicles, ranging from shuttle buses, maintenance and service vehicles, standard sedans/compact cars, vans, and emergency response vehicles. Vane's auto liability exposures include property damage, bodily injury, and legal liability.

Property damage would cover physical damage to other vehicles and non-university property. Vane can also consider extending property damage coverage to university-owned property losses in the event of an accident. The university's workers' compensation policy would cover bodily injury for Vane's staff; therefore, the captive will provide bodily injury coverage for individuals not employed by Vane. In the event that Vane is found negligent for an accident involving a non-university employee on the job, the insurance company of the non-university employee is likely to seek reimbursement through subrogation for any worker's compensation claims resulting from the accident. In this circumstance, the vehicle liability coverage within the captive can provide coverage to the insurance company seeking compensation.

Property and bodily injury losses can result in legal disputes; therefore, the captive would cover any potential legal issues. Vehicle operation liabilities pose a substantial risk for Vane, but a single-parent captive can precisely tailor coverage to match the university's exposure.

Advantages & Disadvantages of Single-Parent Captive:

Single-parent captives allow a parent company to own, finance, and control its captives for itself and other affiliates. Studies have shown that single-parent captives have continuously outperformed both the commercial insurance market and the overall captive sectors due to their flexibility and control factors (Wright, 2015). Factoring in the diverse risks and loss exposures universities can encounter, the single-parent captive will give Vane complete control during the captive customization process and allow Vane to tailor its coverage to its specific needs. In contrast to group captive structures, using a single-parent captive structure allows for a quicker implementation process. There is no requirement to partner with other companies with similar risk appetites, so there is no discussion of risk transfer levels and profit/loss sharing (Wright, 2015).

Another benefit lies in Vane's ability to generate profits through underwriting and investment income. When the premium exceeds the incurred costs, the captive retains underwriting profits, which can later be transferred as dividends or bolster Vane's financial strength. Vane also has the freedom to decide how to invest its premiums and surplus, and this is critical because these opportunities are not available with coverage through the traditional insurance market.

The downsides to a single-parent captive include the initial capitalization and start-up costs. Starting a single-parent captive structure can be expensive due to the significant initial capital, legal and consulting fees, and regulatory filing fees (West Group, 2023). The high initial costs may be unappealing in the early stages of the captive development process. However, Vane can offset these costs over time through reduced insurance premiums and improved risk management. Another downside is that Vane is taking on the risk of being the sole coverage provider instead of pooling and sharing it with other companies. The university might need to pay more attention to its level of protection, which could lead to insufficient reserves, resulting in inadequate protection. The benefits of a single-parent captive far exceed the drawbacks. With a well-established captive board, the university can anticipate only positive outcomes following the implementation of its captive.

Feasibility Analysis:

The university will perform a feasibility study to determine whether a single-parent captive is the proper risk financing tool to fulfill its objective. It will include a "comprehensive analysis of the captive's legal form, insurance program structure, domicile selection, capitalization, and regulatory and tax issues" (Aon, 2023). To conduct the analysis, the university must gather current and projected exposure values, its five-year loss history by line of business, annual reports or financial statements, copies of current policies, and a premium and claims services payment schedule (IRMI, 2023). The study's results will serve as a baseline for designing and implementing the captive.

Single-Parent Captive Operating Structure:

Captive Management:

Vane University will establish the single-parent captive as a separate legal entity and have full ownership and control of the captive program. The program will have a captive manager who plays a vital role in its development and success. A captive manager brings the following areas of expertise: accounting, actuarial, domiciliary regulatory, investment management, pricing and underwriting, and potentially tax (IRMI, 2019). In conjunction with the captive manager, Vane will strategically integrate a third-party administrator (TPA) into its framework. A TPA will contribute specialized services to the captive, such as claims administration and risk assessment. Vane will also obtain external partners, including a broker, banking/investment manager, legal counsel, tax consultants, an auditor, and an actuary. All of these parties will work closely together to ensure smooth operations and regulatory compliance within the captive.

Domicile:

To determine where to domicile the captive, the captive manager will utilize the feasibility analysis to evaluate each potential state's advantages and disadvantages carefully. Key domicile decision factors include the regulatory environment, such as the solvency requirements, ease of doing business, the flexibility of insurance regulations, and the considerable latitude in the scope of allowable investments. (McArdle, 2023). Financial considerations include capitalization requirements, time and travel costs, taxation policies and incentives offered to captives, and licensing/regulatory fees. Another critical factor is the captive market presence in the domicile and considering the overall reputation and credibility of the jurisdiction. Finally, we want to consider the quality and expertise of local infrastructure and services (WTW, 2023). Considering all these factors, our final choice was utilizing Vermont as our domicile.

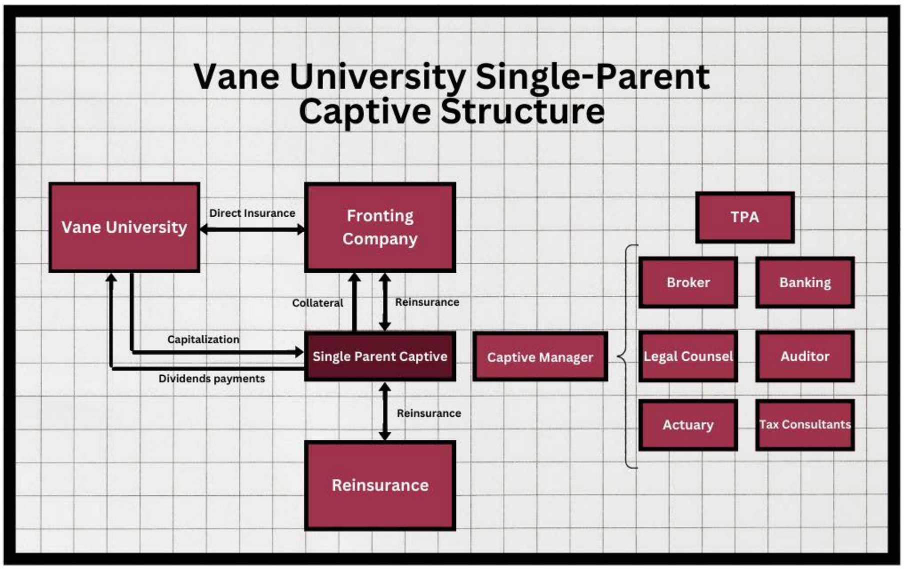
Vermont has been a popular domicile for captives and maintains its status as a reputable domicile acknowledged by captive owners, brokers, regulators, and industry stakeholders. Vermont received multiple awards in 2022 and was named "Domicile of the Year - Highly Commended" (Captive International, 2023). At the end of 2022, Vermont had 639 active captives, and 410 were single-parent captives (Captive International, 2023). It has a history of striving for progress and innovation through unparalleled governmental support. The state's "captive laws are reviewed and revised regularly; a necessity to keep pace with the fast-changing needs of the industry" (Vermont Captive Insurance, 2023). Additionally, Vermont has a unique infrastructure that provides "in-house staffing of examiners and support personnel," and the state's "captive insurance regulators can efficiently process licensing applications, approve business plan changes and answer inquiries in a timely fashion" (Vermont Captive Insurance, 2023). Other reasons we selected Vermont include its competitive costs, gold-standard reputation, an extensive network of experienced captive service providers, and accessibility of service providers and captive regulators.

Risk Transfer Partners:

The university must partner with a fronting company, given that Vane would be considered an unlicensed and unadmitted insurer outside the Vermont domicile. The fronting company that Vane selects must be a licensed insurer that will guarantee compliance with state regulations and financial responsibility laws. The role of a fronting company is to issue Vane an insurance policy, establishing evidence that the coverage offered by the captive is backed by a licensed and admitted insurer. This eliminates the need for the captive to obtain licenses in every state where it operates.

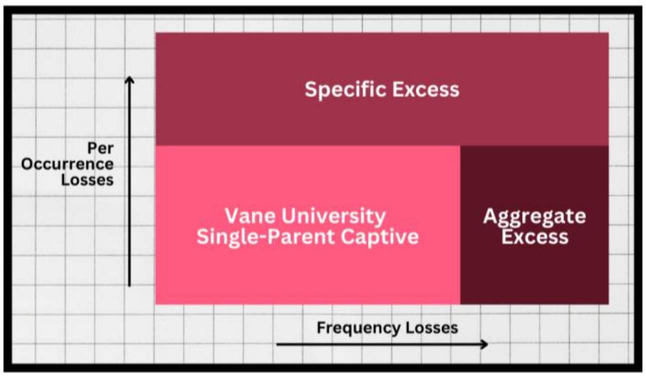
Although the fronting company does not intentionally transfer any risk, they are held responsible for providing financial backing if the captive encounters a significant loss it cannot indemnify. Due to the possibility of risk transfer, the fronting company will require collateral and charge the university a service fee. Collateral is an essential aspect of risk management for both the fronting company and the captive. Collateral requirements are typically outlined in the fronting agreement, and the specific terms will depend on factors such as the captive's financial strength, the nature of the risks being underwritten, and the regulatory environment in the domiciles involved.

Typical service fees can range from 5% to 10% of the premium written by the fronting company (IRMI, 2023). To avoid potential issues, Vane will select a respected fronting company that provides an innovative and highly customized program to conquer and manage complex insurance claims. Therefore, Vane can anticipate the fronting service fee to reach 10%.



Reinsurance:

Due to the possibility of the university incurring losses that exceed the captive's coverage limits, Vane will establish a comprehensive reinsurance program. The reinsurance contract will outline the reinsurer's responsibility for losses beyond a specified threshold and establish the maximum level of risk the reinsurer is willing to undertake on behalf of Vane's captive. Determining the degree of risk transfer is crucial to protect the reinsurance company from assuming unlimited liability. The coverage limits will be defined separately for specific reinsurance and aggregate reinsurance. The specific reinsurance coverage will specify the per-occurrence limits that the reinsurer will indemnify in the case of an individual loss exceeding the captive's retention.



On the other hand, the aggregate reinsurance coverage will specify the maximum total coverage that the reinsurer will provide within a policy year. This method guarantees transparent handling of significant individual losses and the total losses during the policy duration. To reduce the level of premium charged by the reinsurer, Vane will retain higher limits within its captive coverages, decreasing the probability of reaching the reinsurance attachment point.

<u>Financials:</u>

Initial Capitalization:

Costs to consider include Vermont's required $250,000 minimum capitalization fee, the initial and annual license fee of $500, and the actuarial application review fee of $6,000. Although $250,000 is the minimum amount required to fund a captive, it is recommended to possess capital amounts equivalent to a percentage of Vane's written premium. Estimating the premium amount for the captive involves analyzing extensive information. The appointed actuary will assess the suitable underwriting amount by reviewing Vane's previous loss history and current loss exposures.

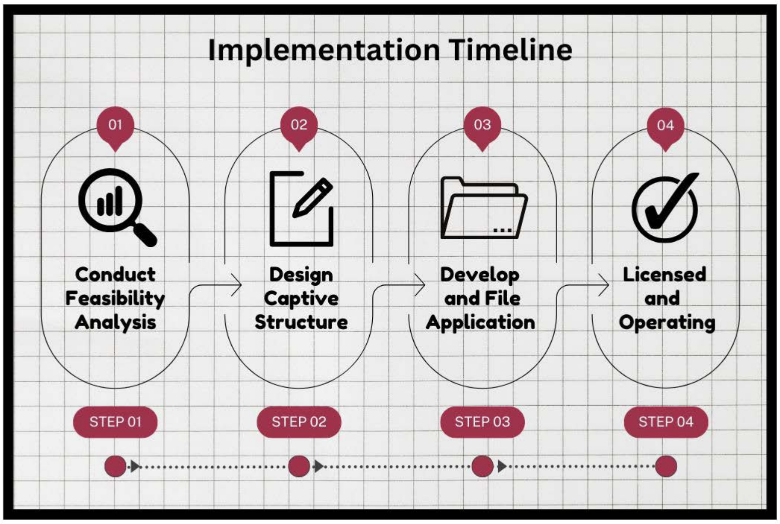
Vane generates money through endowments, gifts, tuition and fees, athletics, and grants; therefore, it has the financial strength to maintain and operate a single-parent captive program. The average revenue from tuition and fees for public universities is $8,720, so Vane's annual revenue would be estimated to be $575 million from tuition and fees (NCES, 2023). Considering the various sources of revenue, Vane is likely to have the financial strength and available capital to utilize a single-parent captive successfully.

Taxes:

The captive insurance premium is being taxed and has different rates depending on the total amount of premiums. For example, "0.38% on the first $20 million; 0.285% on the next $20 million, 0.19% on the next $20 million, 0.072%" (State of Vermont, 2023). Vane will have the opportunity to receive a $5,000 new captive tax credit in the first two years of licensure. The tax rates for a single-parent captive domiciled in Vermont include a minimum of $7,500 and a maximum of $200,000 (Captive International, 2023).

Implementation:

Vane University can begin with the implementation process when the feasibility analysis is complete, and the desired captive structure is selected. The implementation process involves submitting an application and "filing the necessary documents at the domicile of choice with the help of selected members of the management" (Zurich, 2022). Vane can expect this process to take up to 30 days. Once the documentation is submitted and the application is approved, the regulators will issue Vane University a captive license to fund its newly opened bank account and begin operating as a single-parent captive insurance company.



Risk Management Considerations:

Vane should invest in specific risk management tools to leverage the single-parent captive for short and long-term gains. Loss prevention tools for vehicle liability include introducing driver training and safety programs, conducting regular vehicle maintenance checks, utilizing telematics and monitoring systems, and formulating a comprehensive emergency response plan outlining procedures for accidents, breakdowns, and unforeseen occurrences.

For the university's general liability exposures, we recommend that Vane develops and enforces clear policies addressing ADA violations, administration practices, sexual abuse and molestation, and hazing within Greek life. Vane should provide easily accessible channels where students and staff can confidentially report any instances linked to its liability exposures and ensure that all reports receive prompt attention and undergo a thorough investigation. Lastly, we suggest that Vane implement a surveillance plan, including a security team and cameras to monitor and observe the various operations and activities on campus. These risk management recommendations will help minimize Vane's total cost of risk by decreasing the frequency and severity of claims.

Conclusion:

Implementing a single-parent captive insurance program will address the specific insurance challenges faced by Vane University and provide a proactive and strategic approach to risk management. With the single-parent captive, Vane can design unique insurance policies to mitigate the liability risks associated with its large student population and historic campus buildings. Following a successful year of operation, Vane can explore incorporating its workers' compensation and property insurance policies into the captive structure. Despite already securing cost-effective and accessible policies for these coverages, consolidating all loss exposures within its single-parent captive can further reduce premium and administrative costs. In conclusion, Vane University's newly-formed captive positions itself to exercise greater control, achieve cost savings over time, and enhance its overall management of handling risks in the ever-changing world of liability issues.

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Middle Tennessee State Team

Brian Dunn

What interested you about the CICA Essay contest Captive Insurance Solutions for Today's Risk Management Challenges?

CICA is known for its commitment to accessing and providing opportunities for the upcoming generation.

I value this purpose as a young professional, so I jumped at the opportunity to be a part of this contest. The future is us and we are grateful to be involved in this process.

How was captive insurance helpful for your chosen organisation?

Captive insurance was helpful for our chosen organisation because it allowed them to find solutions to limitations that were faced in the commercial insurance market. In our case, the main struggle was the coastal commercial property market. The implementation of a captive insurance company will help our organisation to better navigate and manage risk.

What did you learn about captive insurance while researching and writing your essay?

While researching and writing our essay, I learned that there are multiple paths to success through the utilisation of a captive.

As humans, we want to recognise decisions as correct and incorrect. However, captives offer the flexibility to create a plethora of solutions.

There is a creativity piece when it comes to developing a captive that is like the creation of any new business. It is likely that if we asked a group of 10 captive professionals to individually develop a plan for one captive, that they would provide 10 different answers. Each developed plan has its benefits and opportunity costs.

How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?

Participating in this competition forced me to contemplate the details of a captive insurance company in a comprehensive way. Before this process, I had very minimal exposure to captive insurance except for concepts I studied at MTSU and in courses offered by The National Alliance.

While these experiences offered a solid foundation, I discovered that a captive is composed of many working parts that require diligence to function properly.

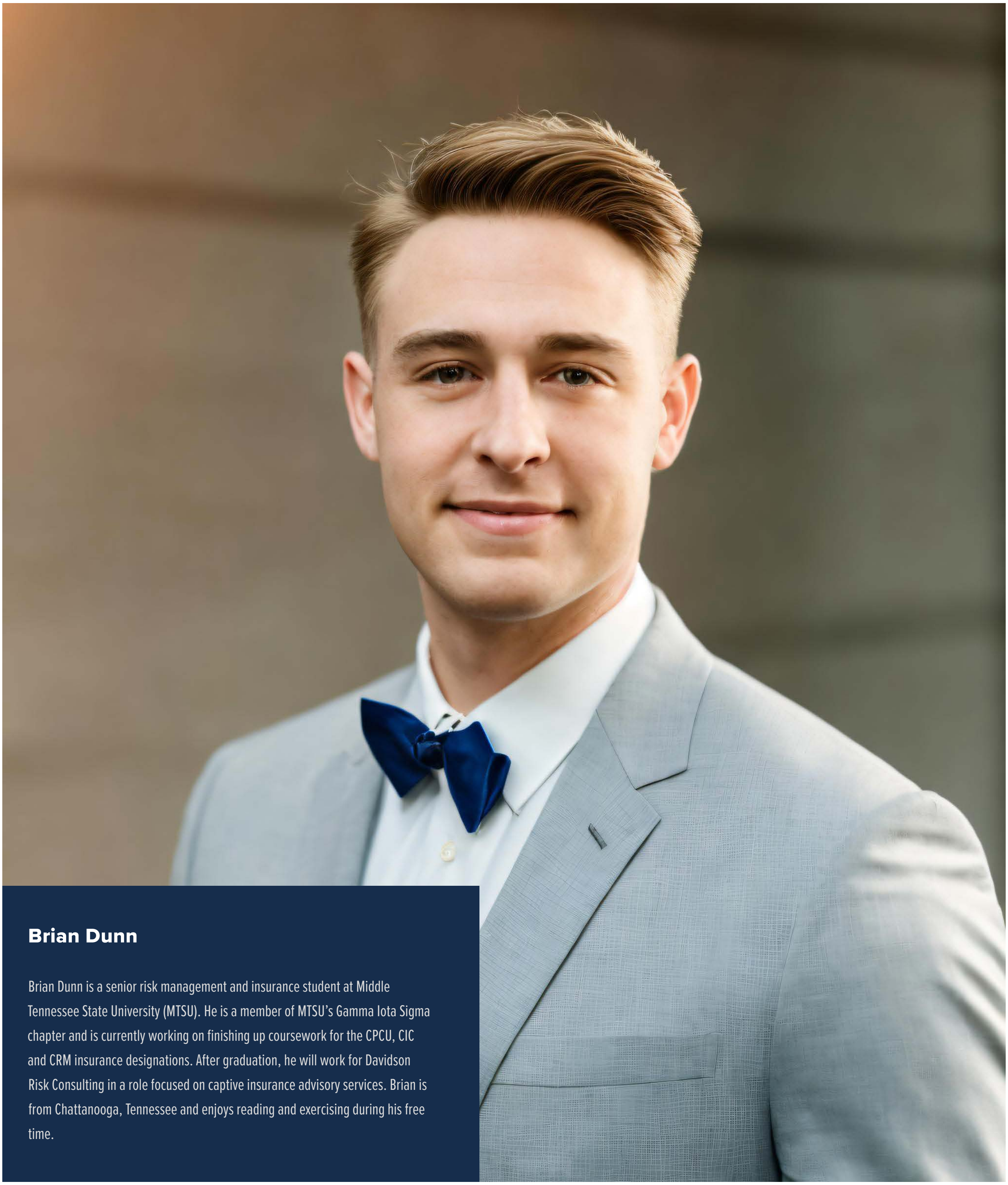
Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?

I would consider a career in captive insurance because it offers a role in helping businesses protect their assets and prosper. No two captives are exactly the same, therefore no two days on the job will be exactly the same.

If captive insurance was well filled with information and discovery, it would never run dry. I am looking forward to the breadth of knowledge that I will learn about various industries as I help the businesses within them.

How does your college coursework align with a career in captive insurance?

Middle Tennessee State University's risk management and insurance programme understands the importance of captive insurance in the commercial space. The professors make sure that students understand the many alternative risk transfer options that can supplement traditional insurance. Students are given the opportunity to attend our state's annual captive insurance conference and to connect with professionals in the industry. ■



Brian Dunn

Brian Dunn is a senior risk management and insurance student at Middle Tennessee State University (MTSU). He is a member of MTSU's Gamma Iota Sigma chapter and is currently working on finishing up coursework for the CPCU, CIC and CRM insurance designations. After graduation, he will work for Davidson Risk Consulting in a role focused on captive insurance advisory services. Brian is from Chattanooga, Tennessee and enjoys reading and exercising during his free time.

Middle Tennessee State Team

Rose Gendy

Rose Gendy is a recent graduate of Middle Tennessee State University (MTSU). She graduated in December 2023 with a risk management and insurance degree. She was involved in MTSU's Gamma Iota Sigma Chapter. She interned with HUB International last summer and is now working full-time there. She is in the process of getting her P&C licence. Rose is from Cairo, Egypt and enjoys cooking and spending time with her family.

What interested you about the CICA Essay contest Captive Insurance Solutions for Today's Risk Management Challenges?

I heard about this competition last year through social media and that is what got me interested in it.

I thought it would be a cool experience to enter this competition.

How was captive insurance helpful for your chosen organisation?

Captive insurance was helpful because it helped them find solutions that are not available in the current commercial market.

They also have the ability to make risk management decisions that could benefit the operations of their company.

What did you learn about captive insurance while researching and writing your essay?

I learned that captive insurance can be beneficial as a risk management tool and the process of creating a captive.

"Captive insurance provides alternative plans of action to handle the market pattern of insurance"

How does your expanded knowledge of captive insurance compare to your understanding before entering the competition?

Before entering this competition, I did not know too much about captive insurance, but it sure has surprised me. It is interesting how it creates its own insurance to provide for risks associated with the business needs and operations.

Would you consider a career in captive insurance? What about captive insurance appeals to you as a career choice?

I found captive insurance appealing because of the fact that it has its flexibility. Captive insurance provides alternative plans of action to handle the market pattern of insurance. Of course, like everything else it does come with its advantages and disadvantages, but I would consider a career in it if I had the opportunity.

How does your college coursework align with a career in captive insurance?

Courses that relate to risk management typically provide us with a solid foundation in understanding risks which is very crucial in that field. It is also crucial in captive insurance. What I have learnt in my college coursework relates to captive insurance with just slight differences. ■

2023-2024

CICA STUDENT ESSAY CONTEST

Captive Insurance Solutions for Today's Risk Management Challenges

3

MIDDLE TENNESSEE STATE UNIVERSITY

MIDDLE TENNESSEE STATE UNIVERSITY:

Brian Dunn & Rose Gendy

LOVEIT! RENTALS – SINGE PARENT CAPTIVE SOLUTION

Introduction

LoveIt! Rentals is a Florida-based company that leases coastal vacationing properties to groups of 10 or more. The company has 100 rental properties along the coasts of Alabama, Georgia, Florida, North Carolina, and South Carolina. Most rental listings feature a private swimming pool. The core of their business plan is to provide affordable, pet-friendly rentals that differentiate through top-notch customer service. This focus is driven by 350 full-time employees who support bookings and rental activities.

LoveIt! Rentals (LoveIt!) has demonstrated interest in exploring the implementation of a captive insurance program to reduce their overall cost of risk and help resolve issues they currently face in the commercial market. LoveIt! has reported a 26% increase in commercial property premiums this year. Carriers are forced to reduce coverage limits and scope provided to limit coastal exposure. Property is not the only coverage line the company is struggling to renew; excess general liability coverage is proving difficult to obtain. Together, these two risks are accounting for higher expenses this year, and LoveIt! may be forced to forego necessary investment activities to afford its insurance premiums.

Analysis of Risks

Commercial Property

Commercial Property experienced a double-digit price increase during the first two quarters of 2023 (WTW). These increases continue the trend of a hardening market and make renewal difficult for insureds like LoveIt!. Significant named storm and flood exposure due to their spread of locations within five minutes of the beach is a risk that insurers are hesitant to write, even while charging a premium rate. The 26% premium increase that LoveIt! faces results from catastrophic losses and the reinsurance response for carriers to protect themselves from insolvency.

High-severity catastrophic losses in areas prone to natural disasters occur more frequently due to climate change. In 2022, Hurricanes Ian and Nicole made landfall in Florida, resulting in separate billion-dollar losses. This year, Hurricane Idalia has been one of the 25 catastrophic events with losses exceeding $1 billion in the United States (NOAA). Catastrophe loss from named windstorm events necessitates higher premiums and more stringent underwriting standards. To mitigate loss, many reinsurers are withdrawing from underwriting property risk, creating a capacity crunch, reducing the limits of liability that the commercial insurer can underwrite, and consequently, higher pricing. The effects of limited coverage and increased reinsurance rates are passed directly to commercial consumers like LoveIt!.

After the catastrophic event, the increased cost of building materials and skilled labor leads to higher replacement cost values and costlier claims. Construction costs increased by 14.1% in 2022 and are expected to increase by 2-4% in the following years (CBRE). Rising commodity costs, increasing demand, supply chain issues, and skilled labor shortages drive these costs. As costs drive insurable values up, insurers must increase premiums to offer a higher level of indemnification.

Excess General Liability

Excess general liability coverage faces similar issues, leading to limited coverage and increased premiums for LoveIt!. Social inflation is when an insurer's claim costs rise above general economic inflations. This results from unusually high jury awards, long-tailed legal proceedings, and, in some cases, the rollback of State Tort Reform. A contributor to the social inflation issue is the emerging third-party litigation finance (TPLF) industry in the United States. Corporations and other institutional investors provided $17 billion dollars for litigation in 2020 (Holzheu 2021). TPLF funding is enabling a larger number of legal cases that result in exhaustive, expensive settlements. As a result, liability consumers such as LoveIt! Rentals are finding it harder to obtain coverage and are seeing increasing rates from carriers.

LoveIt! faces company-specific exposures, causing it to be classified as a riskier-than-average insured. A fundamental part of LoveIt!'s business model is that they rent to large groups of people, have swimming pools, and allow pets. Such risks have unique profiles that enhance the likelihood of a general liability loss. Having swimming pools on the rental property creates the risk of accidental drowning and increases the probability of slip-and-falls. Insurance companies view pools as an "attractive nuisance," meaning they tend to attract children and create a dangerous situation. The swimming pool risk, added to the fact that ten people can occupy the house, leads to a greater chance of liability accidents. These exposures are dear to the business plan and must be adequately insured, not avoided.

Captive Benefits

There are a multitude of reasons why over 7,000 captives are functioning globally, and 90% of Fortune 500 companies utilize a captive (NAIC). Above all else, a captive is a risk management tool offering greater flexibility to tailor coverages for their insureds. Endless possibilities and combinations of risk transfer exist; making the captive unique, for no two captives are alike. Coverage lines not feasible in the commercial market can be insured through the captive, because it can offer broader terms and conditions. Commercial insurers limit their contractual exposure by utilizing exclusions, sub-limits, and restrictive definitions and conditions in their policy forms. Often the customer doesn't fully grasp these limitations until their claim is denied or pays much less than expected. Captive insurance offers innovative solutions in areas where traditional insurance companies are lacking.

The captive insurance company can utilize intentional management to be more cost-efficient than a commercial carrier. Costs of a commercial carrier include commissions, fees, underwriting expenses, administrative expenses, and taxes. Commercial insurers spend an average of 25% of every premium dollar on operating expenses (KPMG). This statistic results from the failing operational efficiency of commercial insurance companies that multiply with size and scale. Above operating expenses, agent commission costs generally amount to 10-20% of every premium dollar. LoveIt!'s captive can eliminate unnecessary frictional costs by leveraging strong leadership capabilities. Depending on the structure, captive operational cost can be less than 15% of premium.

Any captive's long-term strategy must focus on growing value through stable premiums and practicing risk control. Claims management will transform under captive ownership. The ownership of the captive will soon realize that any claim that is not had or can be successfully mitigated will impact the bottom line. Because of this financial driver, there will be greater emphasis on timely reporting and taking adequate action to prevent or mitigate loss. Loss control should be at the forefront of each manager's mind and is integral to the captive's success. Claims management will be more effective and efficient, for the captive will have greater control over the process.

Risk Transfer

For premiums paid by an insured to be deductible as a business expense, the IRS provided Letter Ruling guidance regarding sufficient risk transfer. Specifically, this means risk shifting (moving risk from one party to another) and risk distribution (spreading the risk among the group). Applicable to LoveIt!'s paradigm, Revenue Ruling 2002-90 provides as guidance a tax scenario based on *Commissioner v. Humana*, whereby a captive insurance company provided insurance to its 12 wholly-owned subsidiaries each operating independently from the parent company and paying premium to the captive insurer. It is important to note, in Revenue Ruling 2002-90, each subsidiary had its own employer identification number and filed its own tax return, allowing it to deduct premium as an ordinary business expense. The court determined that there was risk distribution and risk shifting present.

This case is examined because it embodies the organizational structure envisioned for LoveIt!. Premiums will be allocated to each subsidiary and paid to the captive, who will pool the risk and issue policies to each subsidiary. Details have not yet been disclosed, but it will be assumed that LoveIt! has adequate subsidiaries to warrant sufficient risk transfer. The captive must act strategically, profitably, and serve the insured's risk management and business objectives. The parent should undoubtedly operate at an arm's length from its insureds.

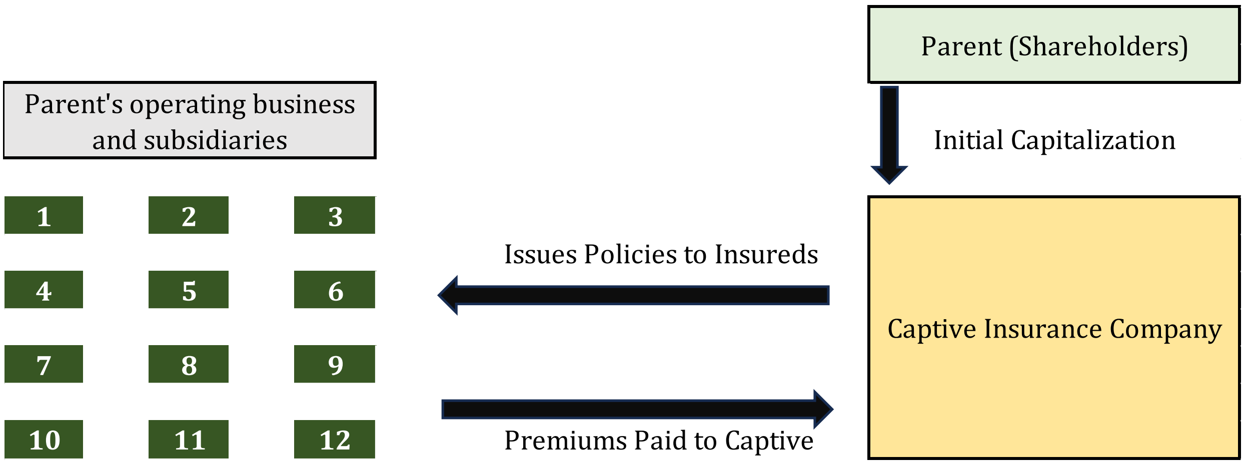
Domicile Selection

Selecting a domicile that will have regulatory oversight of the captive is an integral part of the captive creation process. Regulators play a decisive role in determining the environment in which captives operate. The *Captive Insurance Times Domicile Guidebook* provides a valuable tool to evaluate the details of each domicile.

We believe that Bermuda, one of the largest captive domiciles based on volume, will be a promising home for LoveIt!'s pure captive. Bermuda stands out due to the presence of commercial insurance and reinsurance companies that primarily serve the island nation. It would be difficult to match the open-market underwriting capacity of Bermuda in other domiciles. Another upside to a Bermuda captive is that there is currently no income, corporation, or profit taxes, withholding tax, capital gains tax, or transfer tax payable by exempted companies. Every domicile has formal regulations and requirements to establish and maintain a captive. Bermuda captives are required to have a physical presence in Bermuda. This requirement could be fulfilled by having an individual who conducts business in the domicile as a qualified officer of the captive. The minimum statutory capital requirement for a Class 1(a) Bermuda captive is $120,000, considering that LoveIt!'s captive insures related risks. Also available in Bermuda is a cell structure, whereby the captive could capitalize with less than $50,000. To operate in Bermuda, LoveIt! must submit a formal licensing application to the domicile that will include the captive's business plan, five-year proformas, the pre-incorporation form, resumes of proposed board members, and other supportive information.

Captive Structure

As briefly touched on in a preceding paragraph, LoveIt! Rentals will elect to form a pure captive. A pure captive, also known as a single-parent captive, is the most common form of captive ownership. This type of ownership structure was selected for LoveIt! because of its ability to personalize and focus on the specific risk profile of its insureds. All insureds of the captive are related and owned by the parent, LoveIt! Rentals. While there is more flexibility with the pure structure, the ownership is more expensive. The cell structure is a turn-key structure that includes captive management, audit, actuarial, and administration. Of consideration, as well, is the investment income generated by the captive's premium, reserves and surplus.



As shown above, LoveIt! Rentals, the parent, will have to provide capital to begin the captive. The parent must obtain initial capitalization in the form of a Letter of Credit or cash per statute. The captive insurance company will then issue policies to the insureds in return for premium. The parent can return excess profits to its owners in the form of dividends, but this money might be used more efficiently to fund risk management services that would decrease losses. For example, services that could help prevent storm losses to property, such as trimming trees or repairing roofs. Another important unallocated loss adjustment expense could be the implementation of background screening software that all guests must register through to vacation with LoveIt!. The captive can offer a method of funding for these necessary projects.

Coverages Contemplated

Property DIC

This policy will be written to provide three coverages:

1. Deductible Reimbursement coverage for the current commercial property program. This feature allows LoveIt! to fund the high commercial property deductible that will be taken to get a substantial premium credit.

2. Difference in Conditions coverage in excess of the coverage provided under the commercial property form will be available with a $2,500 deductible. For example, if the Increased Cost of Construction sub-limit on the commercial policy is $100,000, the DIC will increase this to the policy limit. This coverage section will cover specific types of property and causes of loss that are excluded from the commercial property form. For example, a falling tree could damage the designer pavement surrounding the swimming pool. The Property DIC policy could be tailored to cover excluded items, such as pavement, that would be denied by the commercial carrier. There are numerous physical risks that a swimming pool could face, which this policy could be written to handle.
3. Business Income Coverage including Extra Expense will be written into the policy and will not require “physical loss or damage to insured property” to respond to a loss. For example, if one of LoveIt!’s rentals were located in an area that faced heavy storms that damaged the surrounding houses but did not damage any LoveIt! property, the BI & EE form could respond to this loss. Another consideration would be to write pandemic disease or insect infestation as a covered loss under this form. This would allow the company to recuperate the net income and continuing expenses including payroll that were suffered due to these perils.

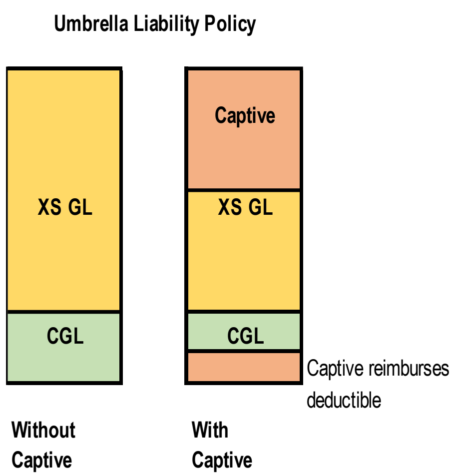
The Property DIC policy is excellent for insureds to establish thorough property and business income exposure coverage.

Named Perils

LoveIt! has strong distribution of risk among five states and over 100 properties, allowing them to address the named windstorm risk through the captive. LoveIt! will write a named perils windstorm policy issued to their insureds and then look to the Bermuda markets for reinsurance.

This named storm policy will cover direct physical loss from any named storm, including the storm surge that results. LoveIt! will look to the NFIP for underlying coverage of $500,000 per building for storm surge, and if NFIP coverage is not available, this policy will be primary. The premium savings comes from LoveIt! having direct access to the Bermuda reinsurance markets, saving them the transaction costs they previously paid for their agents to access the market. This policy will also include business interruption and loss of income resulting from named perils covered under the policy.

Umbrella Liability



The captive will write the last layer of umbrella liability coverage. The excess general liability carrier is mainly concerned about taking on the higher limit of risk. The insured may consider purchasing a Commercial General Liability insurance policy with a large deductible that the captive can insure. The CGL premium savings can be paid as premium to the captive, minimizing the premium paid to the commercial insurer. Ownership may decide to cede some of the umbrella liability policy limits to prevent paying entirely out of pocket for a large claim.

While this paper is written to address LoveIt!'s top two risks through a program offered by a captive insurance company, the captive should not limit its purpose to these two lines of insurance. As a profit center, the captive can utilize fronting facilities and managing general agency (MGA) arrangements to offer profitable lines of insurance to the customer base, including, but not limited to, accident and sickness coverage to vacationers, trip cancellation coverage, and personal liability including damage to owned or rented property.

Ultimately, actuaries will determine the pricing of these coverages, and the captive manager will oversee the operations in conjunction with other service providers.

Conclusion

While it would require an examination of existing commercial policies, loss runs, financials, and other important information to determine whether a captive would be feasible for LoveIt! Rentals, our study has demonstrated how a captive could potentially benefit the company. We analyzed LoveIt's commercial property and general liability risks, and determined that Property DIC, Named Storm, and Umbrella Liability Policies would begin to address their most urgent needs under a single-parent captive domiciled in Bermuda. LoveIt! could then write other ancillary lines of coverage in an effort to provide more funding for the captive. Year after year, by practicing good loss control, the captive will begin to build up its surplus and have more flexible options with coverages. In conclusion, LoveIt! Rentals can use the captive as a risk management tool and profit center to give them a competitive advantage.

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Modoc Nation

Providing a seat at the table for tribal domiciles

Chief Robert Burkybile III, tribal chief of the Modoc Nation in Oklahoma, discusses concerns about misconceptions and prejudices towards tribal domiciles in the micro-captive insurance industry and provides clarity regarding the Modoc Nation's high standards

As the chief of a small, federally recognised Native American tribe involved in the captive insurance industry, I have recognised a trend of misconceptions and prejudices held by several captive professionals regarding our place in the industry.

One difficulty lies in the confusion around what a "federally recognised tribe" is.

As the Bureau of Indian Affairs notes: "A federally recognised tribe is an American Indian or Alaska Native tribal entity that is recognised as having a government-to-government relationship with the United States, with the responsibilities, powers, limitations and obligations attached to that designation, and is eligible for funding and services from the Bureau of Indian Affairs."

In other words, federally recognised tribes have a certain level of sovereignty and the right to self-government that is similar to, but different from, a state government.

For example, tribes and states both have the right to regulate business transactions such as insurance, with tribes possessing the authority to develop regulations separate from the state in which their territory is located.

Many Native American tribes in the United States choose to exercise these rights to act as a captive domicile.

Generally speaking, a captive domicile is a jurisdiction that licences captive insurance companies and has primary regulatory oversight over them.

Tribes choose to become domiciles for the same reasons that more than 25 US states have passed legislation legalising captive insurance. Namely, becoming a captive domicile generates revenue for the tribe or state in the form of captive premium taxes, registration fees and licensing fees.

While I cannot speak for every tribe and how they use these funds, I can speak for the Modoc Nation, as we put the funds generated by the Modoc Domicile to use, doing good for our tribal members. In particular, we help provide child care assistance, higher education scholarships and housing. The revenue has also enabled us to reintroduce a herd of 400 bison into the Modoc range, demonstrating our tribe's commitment to conservation and restoring a part of our heritage.

The Modoc Domicile has taken an innovative and affordable approach to captive regulation. We hold our domicile to the same level of sophistication, competence and knowledge as any state would to properly regulate and oversee captive transactions. The domicile is overseen by our insurance commissioner, Mark Weitz, an expert in the field who has an impressive resume across insurance and law, as well as an entire team dedicated to captives.

The captive industry is progressive and takes diversity and inclusion seriously. Tribal domiciles, such as the one operated by the Modoc Nation, support critical social services for members of the tribe and others across the country. While there is certainly room for improvement, tribes such as ours possess the sovereign right to regulate captive insurance and the know-how to do so properly. All we ask is for a seat at the table, and an opportunity to prove it. ■

Chief Robert Burkybile III

Tribal chief of the Modoc Nation

Robert Burkybile III of Oklahoma was elected chief of the Modoc Nation in 2022. He possesses a strong background in financial services, including seven years as executive director of the Modoc Tribe Financial Services Authority, three years as executive director of the Modoc Housing Authority, and a stint as a board member of the Modoc Gaming Authority.

Moriarty to chair CICA Board

Mary Ellen Moriarty, vice president for property and casualty at Educational and Institutional Insurance Administrators (EIIA) , will chair the board of directors of the Captive Insurance Companies Association (CICA).

Moriarty has been actively engaged in the insurance industry for more than 30 years.

As a CICA member for more than a decade, Moriarty has served on the Amplify Women Committee and board of directors.

Commenting on the role, Moriarty says: "The need for the captive insurance vehicle has never been as important as it is today which will continue the rapid growth for CICA and the captive insurance industry.

"We will continue to raise awareness and advocate for our industry while also being prepared to defend against potential threats." ■

Banard joins Blackwell Captive Solutions

Taylor Barnard joins Blackwell Captive Solutions as executive assistant. Working remotely, he will support the firm's president, Kari Niblack, as well as the wider Blackwell staff. Barnard joins the insurance firm with a multidisciplinary background. Previously, he spent eight months as a graduate teaching assistant at the University of Kansas.

Earlier in his career, he was a research analyst at the Kansas Department of Health and Environment, between 2018 and 2022.

Commenting on the hire, Blackwell says: "Barnard brings new ideas and promise to the table and fully embodies our company values. He's a go-getter, and we are thrilled to have him onboard!"

Tyler Maconaghy appointed at Hartwell Insurance

Hartwell Insurance has appointed Tyler Maconaghy as vice president.

Maconaghy has more than 10 years of experience in the insurance industry, specialising in primary and excess liability programmes for construction and transportation companies.

Before Hartwell Insurance, Maconaghy was a risk management consultant at Oxford Risk Management Group, which he joined in 2022. Prior to this, he held a three year tenure at Maximum Independent Brokerage, where he was a producer.

Commenting on his move Maconaghy says: "In a market where it is becoming progressively harder to insure property in weather prone states, Hartwell has created an unmatched solution."

NAIC welcomes Anderson as CEO

The National Association of Insurance Commissioners (NAIC) has appointed Gary D. Anderson as CEO.

In his new role, Anderson will be leading the insurance standard-setting organisation governed by the chief insurance regulators from the 50 states, the District of Columbia and five territories in the US.

Prior to his appointment as CEO, Anderson served as a policy adviser and senior counsel in the Massachusetts State Senate President's office, where he was involved in several policy areas, from the state's broad efforts to control health care costs to all matters affecting the financial services sector.

Anderson joined the Massachusetts Division of Insurance as First Deputy Commissioner in February 2014. His responsibilities included strategic planning and policy development for all aspects of the agency.

Andrew Mais, NAIC president and Connecticut insurance commissioner, states via LinkedIn: "Gary's dedication to our state-based system of insurance regulation and his insurance expertise are top notch. We look forward to his leadership as we navigate the complexities of regulating the insurance sector and deliver on our mission to protect consumers."

Commenting on his appointment, Anderson says: "I am excited to embark on the next adventure as CEO of the NAIC, supporting the state-based system of insurance regulation. Thank you to the NAIC Members for the trust and faith you have placed in me." ■

KPMG Bermuda appoints Payne

KPMG in Bermuda welcomes Jay Payne to its leadership team in the role of tax partner.

With more than 30 years of experience in US taxation, Payne has collaborated with clients and colleagues, providing tax consulting and compliance services across various industries.

Previously, Payne worked on the management board at different offices of BDO USA, providing tax consulting and compliance services.

Payne's career began at PwC's Washington National Tax Services consulting practice, where he developed technical skills and a focus on problem-solving. He has since applied his expertise to address tax issues related to business transactions, mergers and acquisitions, joint ventures and growing businesses.

Commenting on his appointment, Payne says: "I am ready to leverage my US tax expertise to drive success for our clients and contribute to our team's growth. Let's make an impact together."

Gatsch takes on role at Hansen Actuarial

Hansen Actuarial has appointed Matthew Gatsch as director and actuary.

Gatsch has been actively engaged in actuarial consulting for more than 26 years, specialising in reserving and funding for insurance companies, captives, self-insured groups and government entities. Prior to the role, Gatschas served as a senior manager for more than two decades at Oliver Wyman, a management consulting company, where he mainly focused on reserving and funding for captives and other property, as well as casualty loss exposures. ■